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**WITHDRAWN**  
Public budgeting

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# PUBLIC BUDGETING





# PUBLIC BUDGETING

A DISCUSSION OF BUDGETARY PRACTICE IN THE  
NATIONAL, STATE AND LOCAL GOVERNMENTS  
OF THE UNITED STATES

By

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WITHDRAWN

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PUBLIC BUDGETING

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## PREFACE

IN VIEW of the great number of volumes daily pouring from the printing presses of this country, I think it is only fair, here and now, to tell the prospective reader something about the purpose of this book and how it came to be written.

This book is an attempt to present a picture—more or less complete—of budgetary practice, as it exists today, in the national, state and local governments of the United States. In writing it, I have tried to view the budget in its broadest aspects, that is, as related to our form of government and to the legislative and administrative problems arising thereunder. Accordingly, I have found it necessary to consider briefly the historical, legal, social, and economic phases of the budget. At times I have also dealt with the theory of the subject. Hence this book is something of a general treatise on the budgetary experience of the United States—an experience, however, which is comparatively short, since it covers only the past twenty-five years. But I must emphasize the fact that it has been far from my purpose merely to tell the story of budgetary development in this country. Although such a story would perhaps be interesting to students of public finance and to general readers, it would lack practical value. I have therefore endeavored to make this volume something of a manual for the administrator and the technician who are actually engaged in the preparation and execution of the budget. Moreover, I have not been satisfied merely with summarizing existing budgetary practices; I have aimed to evaluate them and to point to the trend of development which I think such practices should take in the near future. Throughout I have drawn upon European budgetary experience, especially that of England, whenever I thought it would be illuminating to us. As to the success with which I have combined the essential features of a general treatise and a handbook on budgeting, the reader must be the judge.

That I should have written, at this time, a book which attempts to present in a comprehensive manner the budgetary experience of the United States is no doubt largely the result of my connection with the New York Bureau of Municipal Research, where I have been a member of the staff for several years. The Bureau has the

distinction not only of being the first organization of its kind established in this country, but also of being the first agency to work out and apply budgetary methods to our governmental units. To perfect these methods and to promote their wide adoption has been one of the major aims of the Bureau during a period of more than twenty years. After such rich experience, it was incumbent upon the Bureau to produce a book of this type; so the task fell upon me. In executing it, I can claim no originality; as a matter of fact, my contribution to public budgeting has been small. Like all workers in this field, I have built largely upon the foundations laid by certain forerunners—especially by Dr. Frederick A. Cleveland, a former director of the New York Bureau of Municipal Research, who may be called “the pioneer” in American budgetary development.

In bringing together the raw materials which have gone into this book, I have been aided by many people. Public officials in all parts of the United States, too numerous even to mention, have responded heartily to my requests for information when made either in person or by letter. Besides, I am greatly indebted to several persons who have directly aided me in perfecting various parts of the manuscript. I have been lucky in having it read by Mr. Louis Brownlow, who has made many valuable suggestions drawn from his long and successful experience as a public administrator. I have also been fortunate in having the advice and counsel of Dr. Charles A. Beard, who has not only discussed with me many of the important problems of budgeting, but who has also generously taken the time, for which I am deeply grateful, to read the manuscript carefully before it was sent to the publishers. Throughout the various stages in the preparation of the manuscript—from the collection of the materials to the typing of the finished copy—the staff of the National Institute of Public Administration has unstintingly aided me. My thanks and appreciation are especially due to my associates, William Watson and Philip H. Cornick. Mr. Watson has read and helpfully criticised the chapter on classification. Mr. Cornick has read the entire manuscript while it was in the making; he has discussed the different parts of it with me and has offered many pertinent criticisms and useful suggestions both as to style and contents.

A. E. BUCK.

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PART I

THE GENERAL ASPECTS  
OF PUBLIC BUDGETING



# PUBLIC BUDGETING

## CHAPTER I

### THE SIGNIFICANCE OF PUBLIC BUDGETING

PUBLIC budgeting is the process by which the financial policy of a government, including its monetary requirements, is formulated, adopted, and carried into effect. This process is by no means a simple affair. It involves all the departments and agencies of the government through which moneys are raised or expended; it touches all the economic resources of the community or of the country which are taxed for the support of that government. From an operating standpoint, public budgeting requires technical ability on the part of administrative officers, executive skill in determining the needs of governmental agencies together with a thorough grasp of the problems of taxation, coöperation between the executive and the legislative body in planning, and systematic organization of governmental machinery aided by modern financial methods. When properly instituted and administered, the budget is the most effective means yet devised for the establishment of control over the public purse. Viewed in this light, it becomes a powerful factor in the maintenance of modern government; indeed, its influence extends to the very roots of organized society.

**The Essential Features of Public Budgeting.**—There are two essential features to the process of public budgeting: (1) a comprehensive financial plan, and (2) a procedure for devising, authorizing, and executing this plan. These combined features constitute the budget system.

The financial plan is, strictly speaking, the budget. It sets forth the complete monetary requirements of a government for a definite period in advance and, in so doing, balances the expenditure needs with the anticipated income.<sup>1</sup>

<sup>1</sup> F. A. Cleveland has defined the budget as "a plan for financing an enterprise or government during a definite period, which is prepared and submitted by a responsible executive to a representative body (or other duly constituted agent) whose approval and authorization are necessary before the plan may be executed." ("Public Budgets," *Annals*, American Academy of Political and Social Science, November, 1915, p. 15.) This definition really outlines the whole process of public budgeting.

Budgetary procedure involves the bringing together of estimates covering the multifarious needs of a government, the checking of these estimates against recorded expenditure data, the calculation of the government's income in the light of past experience, the preparation of the budget and supporting measures by the responsible executive or other agency of the government, the adoption of the budget and the enactment of bills designed to carry it into operation by the legislative body, and, finally, the execution of the budget by the executive or the administrative officers in accordance with the authorizations of the legislative body. Briefly, these are the main steps in budgetary procedure. Such procedure is really cyclic in nature, going through all its phases once in the course of each fiscal period.

It is for the reason just stated that budgeting has been regarded as being purely an annual or biennial affair. But this is not the case. Budgeting for the going concern of government is a continuous process: one budget is being prepared while another is being executed. In this way, the budget system helps to maintain continuity of policy in spite of the frequent changes in official personnel which occur under our form of government.

**Fiscal and Legal Characteristics of the Budget.**—While it is possible to define the budget in a single sentence, as we have done above, such a definition needs amplification if it is to be clearly grasped. Perhaps this can best be done by pointing out what the budget is and what it is not.

In the first place, the budget is a *plan*—a plan of action for a government looking toward the future. As Gaston Jèze, the noted French writer on the subject, very well says: the budget is not to be confused with a balance sheet, a statistical summary, or a financial statement.<sup>1</sup> A balance sheet merely sets forth the financial condition of the government as it exists on a certain day. A statistical summary shows what has happened in the finances of the government over a period of years. A financial report is a statement of expenditures and receipts during a *past* period, a recapitulation of financial experience. All this information is valuable and may be used in the preparation of the budget, but this does not change the general character of the budget. It is essentially a plan for the future. Furthermore, this plan should be comprehensive; that is, it should include all the financial requirements of the govern-

<sup>1</sup> See Gaston Jèze, *Théorie Générale du Budget*, 1922, pp. 7-8.

ment to which it relates, showing the total estimated outgo balanced against the total anticipated income for the future period.

In the second place, the budget is not merely a preliminary proposal; it is, as we have just indicated, a plan of action. One American writer on public budgeting has said that the budget is "the administrative experience of the last or current fiscal period systematized and organized for presentation to the legislature, together with recommendations as to expenditures and revenue for the forthcoming fiscal period."<sup>1</sup> According to this definition, the budget is largely a financial report with proposals for the future period attached. As we have already stated, the budget is more than a financial report; likewise, it is more than a set of proposals for the future period. The preparation of proposals by a responsible governmental authority, assuming that these proposals represent a financial plan and not a random list of recommendations, is only the first of a number of stages through which the budget passes before it is finally realized. To begin with, the financial plan is formulated by the executive, or other governmental agency, and transmitted to the legislative body. The plan may be modified by the legislative body in the course of consideration, after which it is adopted by the passage of appropriation bills and revenue measures. Then the plan is said to be authorized, and the executive or the administration takes it up for execution. During its execution, the plan may again be subject to certain modifications as the forecasts for the fiscal period become actualities. In all these stages the financial plan, either proposed, or authorized, or being executed, may be regarded as the budget. It is the budget in the course of formulation, or authorization, or execution, but none the less the budget.

Finally, the budget is without any legal status in the United States. In other words, the financial plan contained in the budget is never enacted into law as such. At first blush, this may sound ridiculous, but let us explain. When the budget is submitted to the legislative body, it may carry with it an appropriation bill or bills, also revenue bills, which that body is required to act upon. If the budget does not carry such bills, then the legislative body prepares them through one of its committees. These bills, not the financial plan contained in the budget, are then enacted into law by the legislative body. Hence, the expenditure side of the budget may be found in one or several appropriation acts. These acts may be either annual or permanent; in the case of the national

<sup>1</sup> E. A. Fitzpatrick, *Budget Making in a Democracy*, 1918, p. 11.



government, for example, many of the appropriations are authorized by permanent acts. Likewise, the income side of the budget may be found in several tax or revenue acts. These acts are usually permanent, especially in the national and state governments; only in the local governments are they, to any great extent, annual. This means, in many cases, that, for part of the expenditures and nearly all of the revenues, the budget, as proposed, is based on authorizations already made by the legislative body. In such cases, the budget, as adopted, is essentially an administrative plan, since the legislative body has taken very little legal action in connection with it, previous appropriation and revenue acts standing unchanged. The reason, therefore, for referring to the budget, when proposed to the legislative body, as a document of information becomes quite apparent once we understand the legal significance which attaches to it in this country. But this does not in any wise lessen the great importance of the budget as a document; it is, indeed, an indispensable instrument in the budget system.

**Political and Economic Aspects of the Budget.**—As we have indicated above, the budget is a powerful instrument in establishing popular control over the public purse. This is apparent from the history of budgetary development in England. After a long struggle, lasting for several centuries, the representatives of the people in Parliament gained a dominant position in the control of the government. In the course of this struggle the budget was evolved as a means of furthering this control. It is now universally recognized as the most important proposal that comes before Parliament during the year. The responsibility for formulating and proposing the British budget rests upon the executive, composed of the cabinet, which stands or falls upon its budgetary proposals. Days and even weeks are consumed in considering and discussing the budget in the House of Commons. Newspapers throughout the British Isles comment upon the action which Parliament takes on each major division of the budget. If, in the end, the executive is not sustained in its proposals, the cabinet may resign and carry the matter to popular vote. This permits the people to participate directly in determining the financial policy and requirements of their government.

Because of the structural differences in our system of government, we have not been able to move along exactly the same lines as the English in our budgetary development. Nevertheless, it has been possible for us to augment official responsibility and popular control through the application of the budget system. New types of organi-

zation and more businesslike methods have already come into being, particularly in our state and local governments. Administration is rapidly changing in response to the demands for effective financial planning and control. A new type of public official has recently appeared; one that does not rely on back-slapping, hand-shaking, and back-stairs negotiations as being the royal road to power and prominence, but upon a broad knowledge of administration, especially public finance and budgeting. The budget system is also bringing our legislative procedure into bold relief, the result being that in many governmental jurisdictions this procedure has been greatly improved. No longer are the old "dark room," "gag rule," and "pork barrel" methods regarded as being proper in the handling of legislative business. The people now have a better opportunity, through the newspapers and otherwise, to know what their government is doing, and are therefore able to express their wishes through the ballot to a better advantage. Of course, all this recent improvement in the machinery and methods of government cannot be directly credited to the budget, but it can, at least, be said that budgeting has been a potent factor in bringing about these changes. And the future promises still more improvement in these directions.

Turning to the economic aspects of the budget, it is evident that the cost alone of carrying on the divers operations of our various governments places them in a class with the gigantic private corporations and businesses of this country. Hundreds of thousands of persons (we do not know the exact number; probably it is in the neighborhood of 3,000,000) are employed by the governmental units of the United States in carrying on the various public functions. Perhaps the total payroll for public employees—national, state and local—exceeds \$4,000,000,000 a year. Thousands of different kinds of supplies and materials costing millions of dollars are purchased annually for use in governmental work. Aside from these services and commodities, there are sundry other things for which the various governments spend money each year. In fact, the total expenditure of all governments—national, state and local—within the United States for the year 1926 has been estimated at \$11,627,000,000, or a per capita of more than \$99. That the annual financing of this enormous expenditure raises economic problems of the first order cannot be denied. It touches and affects all business, industry and commerce within the country in one way or another. On this point, John W. Hills, the skillful writer on English finance, says:

The state does not earn money but takes it. It should not take more than it needs, for its income is a burden upon its subjects. The justification and the measure of this burden must be the value of the services provided. A state is not prosperous when its income is great, but when its expenditure is wise and efficient, and when the benefits from that expenditure outweigh the load imposed by its income. Taxable capacity must only come in to fix the outside limit. If we proceed otherwise, we approach national finance from the wrong end. Incidentally we run the danger of thinking that the more the state can raise the more prosperous it is. And when we have reached that point, we are putting out upon a sea to which there is no shore.<sup>1</sup>

**Practical Advantages of Budgeting in Government.**—It remains, as a final part of this chapter, to point out some of the practical advantages which result from the application of public budgeting. The recipients of these advantages in any government are mainly three: (1) the government's executive and administrative officers, (2) its legislative body, and (3) its citizens and taxpayers. We shall now indicate briefly just what the advantages are with respect to each group.

Budgeting is a great help to public administrators because it substitutes planning for chance in operating the departments and agencies of the government. Under budgetary procedure the administrator must make a forecast of his expenditure needs; he must think of the activities which he is going to carry on in terms of their cost; he must formulate a plan of work and follow it, making only such changes during the year as are necessary to meet new and unexpected conditions. The formulation of the budget requires the chief executive, or other responsible agency (assuming there can be such an agency other than the chief executive), to view the needs of the departments and agencies of the government as related to each other and to the whole organization, and then to regard the total expenditures for all purposes from the standpoint of the means available to meet them, the determining factor being the balancing of proposed expenditures with anticipated income. This effort to produce a complete picture of the financial requirements of the government is valuable not only from the standpoint of the chief executive but also from that of each departmental head, since the budget relates departmental needs and tends to prevent one department from getting funds at the expense of other departments. Under the budget system the work of the government is regarded as an integrated whole and not as so many separate activities, thus making possible businesslike management by the executive.

Without a budget the members of the legislative body have no

<sup>1</sup> John Waller Hills, *The Finance of Government*, 1925, p. 5.

real basis for intelligent action on the fiscal policy of the government. It is through the budget that expert advice on financial requirements is presented by the executive to the legislative body. The members of this body generally know very little about these requirements as a result of actual contacts with the administrative departments and agencies; only the officials who direct the departments and agencies can know fully the needs of their work. A further difficulty from the standpoint of legislative members arises because of the fact that the work of the government is, for the most part, highly technical and quite complex. For this reason, if for no other, it is very desirable, in fact, necessary, to have a plan formulated by the executive, setting forth the administration's needs and supplying the facts to support its requests. Furthermore, such a plan requires the legislators to think about the various activities of the government as parts of a greater whole; it helps them to comprehend the ramifications of governmental work and to compare the revenues and other resources of the government with its expenditure needs. Thus the budget system is of great practical value to members of the legislative body in determining the fiscal policy of the government.

Finally, the budget is a powerful aid to citizens and taxpayers. It enables them to know how much money is being raised for the support of the government and the purposes for which every dollar of it is to be expended. When properly prepared and thoroughly discussed before the legislative body, it is a most valuable source of public information. The press is aware of this fact and rarely fails to give space to the news growing out of the discussion of the budget. The upshot of this is that citizens generally are beginning to show considerable interest in the financial condition and operations of their government. This augurs well for the future success of the budget system in this country.



## CHAPTER II

### DEVELOPMENT OF THE BUDGET SYSTEM

A GENERATION ago the budget system was seldom if ever discussed in the United States outside of academic circles. Political leaders were not interested in it; public officials generally knew little or nothing about it. Citizens were almost entirely ignorant of its possibilities as a device for the control of the public purse. Even the leading editors of the country had not caught the significance of the budget; in fact, they seemed to regard the financial affairs of the government as having little news value. When a New York City editor was asked in those days to make his newspaper the medium for telling the people about the city's finances, he replied: "It can't be done. We don't *make* news; we *print* news. . . . Most of the people never heard of a budget; and the rest of them don't care to hear about fiscal management or budget methods." If the financial practices tolerated in that period are to be taken as an indication of popular interest, the editor was undoubtedly right.

**Practices that Preceded Budgetary Methods.**—It seems fitting therefore to begin a consideration of budgetary reform with a review of the financial practices that prevailed in our national, state and local governments at the turn of the century. Our national government was then the only great nation without a budget system. Congress raised and voted in a more or less haphazard manner the many millions of dollars required annually to operate the federal government. There was no financial planning covering all outlays and revenues, no attempt to make a balanced program of expenditures and income previous to congressional action. The Secretary of the Treasury, it is true, was required to compile the departmental requests for appropriations in a "Book of Estimates," which he presented to Congress, but this compilation served merely as a starting point for the congressional committees dealing with appropriations. Besides being inflated, it did not present a complete financial plan and it did not bind the spending agencies to any definite commitments. The heads of these agencies often submitted modified estimates at a later date and lobbied with the committees until they were approved. In Congress there were more than a dozen committees, working independently of one another and reporting separate



appropriation bills to be passed at irregular intervals. Each committee usually made its own scheme for expenditures according to its pleasure with little, if any, regard for the action of other committees or the total outgo proposed for all purposes. Representatives of public and private interests besieged the committees for larger appropriations. Members of Congress were also active in behalf of their constituencies. They insisted on adding names to the federal pension roll; they demanded appropriations for post office buildings, river and harbor improvements, army posts, soldiers' homes, fish hatcheries, and many other undertakings conceived in the interest of their several localities. With such frankness were these schemes pushed that appropriations for local purposes came to be known as "pork," and the bills containing them were openly called "pork barrel" legislation. If a design of this kind failed in committee, it could usually be driven through Congress by the logrolling procedure. Only after Congress had acted could the authority of the President be brought to bear on the expenditure program of the government in the form of a veto—which did not extend to items. But this was at best a merely negative action, frequently drastic and often futile.

State governments in those days were even more fortuitous in the management of their finances than was the national government. In some states the legislative body did not vote appropriations for all necessary purposes at each regular session, but permitted the making of expenditures on blanket authorizations often many years old. Even where the appropriations were regularly enacted, they were seldom preceded by a general review of the state's expenditure needs or income requirements. Instead of being gathered and consolidated for submission to the legislature, requests for appropriations came in from the spending agencies at any and all times during the legislative session. Generally they were referred to various committees, no single committee in either house having control of all the bills carrying charges on the state treasury. Under this system of committee management, appropriation bills were taken up one after another and passed without reference to the final totals; bills for purely local purposes were voted by the logrolling procedure, and not until the legislature had adjourned could a summary be made. The situation in California as late as 1909, which may be taken as fairly typical, is thus graphically described by Governor Young in a speech before the Commonwealth Club of San Francisco on December 14, 1926:

When I first entered the legislature in 1909, there was little short of chaos as far as any orderly provisions for state expenditures were concerned. There had been no audit of the state finances for over twenty years. The finance committees of the two houses were scenes of a blind scramble on the part of the various institutions and departments of the state in an endeavor to secure as large a portion as possible of whatever money might happen to be in the treasury. Heads of institutions encamped night after night in the committee rooms, each alert for his own interest regardless of the interests of other institutions. Logrolling and trading of votes on appropriation bills was the common practice among members of the legislature.

That was not all. In nearly every state the governor enjoyed the veto power, and it was impossible to know just how much money had been appropriated until he had passed upon all bills calling for expenditures. Only when he had finished was it possible to discover whether the anticipated income of the state was sufficient to meet the total appropriations. While the governor might cut the appropriations as he saw fit at the end of the legislative session, it was not deemed proper for him to initiate a plan of expenditures at the beginning of the session or to defend it during the consideration of the bills.

Conditions were not any better in the local governments at the close of the nineteenth century. Some of the largest cities had not yet recovered from the havoc wrought by political rings in earlier years by stealing and squandering vast sums of public money. Although the wholesale methods employed by such grafters as Tweed had been checked, waste and extravagance were practically uncurbed. While a few of the city governments were experimenting with improved financial methods, local governments in general made practically no use of systematic procedure in handling their fiscal work. Local taxpayers were without reliable and informative figures on governmental costs; increasing tax rates were explained, if at all, by resort to political subterfuges. There was no comprehensive financial planning. One could not tell in advance how much money would be spent during the fiscal year or whether the year would close with a surplus or a deficit. Since the amount of the annual expenditures was usually dictated by political expediency, the available revenues of the government frequently did not cover the outlays; and in such cases the local authorities often borrowed money by issuing long term bonds to pay current bills, thus mortgaging future resources to meet operating expenses.

**Growth of the Movement for Budgeting.**—The conditions which we have just sketched set a few individuals to thinking about

American financial procedure. They had not gone far when they found in existing practices compelling evidence of the need for a budget system. In their search for a way out of this chaos, they began to inquire into the methods used in other countries and to compare these favorably with our own disorderly practices.<sup>1</sup> They pointed out the advantages of budgetary planning and control in the European countries, particularly England. They explained the essentials of a budget system, and they discussed budgetary procedure as applied to our form of government. Although their treatment of the subject was often theoretical, it had after all a practical appeal. Before very long other individuals, among them business men interested in public affairs, began talking about the budget system. Almost immediately members of civic bodies commenced to discuss it, for they saw in it a means of finding out something about the work of their local governments and discovering why taxes for the support of those governments were constantly increasing.

At this stage in the development of public interest bureaus of municipal research were organized to study the financial procedure, organization, and management of city governments. The oldest of these, the New York Bureau of Municipal Research, established in 1906, immediately inaugurated a study of local budgetary needs. Among its first reports, it published in 1907 a study entitled "Making a Municipal Budget," dealing particularly with New York City's expenditures for health administration. This report contained perhaps the first minute analysis of a concrete situation in American government designed to show in a convincing manner the necessity for adopting the budget system. At all events, the practical outcome of the efforts of the Bureau was the immediate application of systematic budgetary methods to New York City. While these methods were crude in the beginning, their very appearance marked a new era in our governmental affairs, and as a result New York City soon became a veritable laboratory in financial administration, affording experience for the education of the whole country in the significance of the budget and other modern fiscal methods.<sup>2</sup>

Perhaps the largest single contribution to the promotion of public

<sup>1</sup> See, for example, H. C. Adams, *The Science of Finance*, 1898, pp. 103-218.

<sup>2</sup> See *Efficiency in City Government*, American Academy of Political and Social Science, Philadelphia, 1912. But the lead which New York City had in budgeting and fiscal methods was not long maintained. By 1916, it began to lag behind other more progressive cities of the country. Since that time it has made little, if any, real progress in this line, due largely to the attitude of the city administration.

interest in the budget system and improved financial administration was made by President Taft's Commission on Economy and Efficiency. This notable Commission, composed of five experienced authorities, was organized in 1910 under the chairmanship of Frederick A. Cleveland of the New York Bureau of Municipal Research.<sup>1</sup> For two years the Commission continued its labors, making searching studies into the organization, administration, and financial procedure of the national government. One of its most important inquiries resulted in a report on "The Need for a National Budget," which President Taft sent to Congress with a message of approval on June 27, 1912. It is not too much to say that this document started a movement which culminated nine years later in the passage of the national budget and accounting act. However, Congress paid little attention to it at the time, and practically ignored "A Budget for the Fiscal Year 1914," which President Taft had prepared and submitted to that body.

Though neglected for the time being in Washington, the work of the Taft Commission had a far-reaching effect on the states. Almost immediately several of the legislatures established economy and efficiency commissions to conduct studies of their administrative organization and methods, and within a few years more than half of them had provided for such agencies of research. As a matter of course nearly all of these commissions recommended, among other things, the adoption of a state budget system and, in most cases, the suggestion was the first to receive serious attention. Considerable political capital, as one might expect, was made out of the budget system, for gubernatorial candidates and lesser lights, searching for campaign slogans, seized upon the budget idea as offering the best hope. Although they often knew little about the idea and gave an erroneous impression of it by advocating halfway measures which confused the public, they helped to turn financial statistics into news and to awaken interest in our appropriation methods.

A decided impetus was given to the budget movement in state governments in 1912, when the budget became something of an issue in the political campaigns throughout the country. The following year six states enacted budgetary legislation. If a date must be fixed for the beginning of practical action in the states, it may well be 1913, although two years prior to that time California and

<sup>1</sup> The other members of this Commission were Frank J. Goodnow, W. F. Willoughby, Walter W. Warwick, and Merritt O. Chance. For a short period, Harvey S. Chase was also a member of the Commission.



Wisconsin had enacted laws containing some provisions for budgetary procedure. Practically every year since 1913 budgetary legislation has been enacted or revised in one or more states, until at present all of them have a budget law of some sort—in many cases, of a makeshift character. Seven states—California, Louisiana, Maryland, Massachusetts, Nebraska, New York, and West Virginia—have attempted to make budgetary procedure somewhat permanent by writing provisions relative to it in their constitutions.

Two-thirds of the states have made the governor, to a greater or lesser degree, responsible for preparing and submitting the budget to the legislature. Several states which formerly had a budget board or committee have lately vested its powers in the governor, a movement brought about very largely by recent administrative reorganization, fixing greater responsibility on the governor. In many of the states which have not yet undertaken to refashion their administrative machinery, the legal provisions making the governor responsible for the formulation and execution of the budget are largely without force, executive power in this regard being little more than nominal.

During these years of development in state fiscal methods, city governments which, as we have seen, began to experiment with the budget system somewhat earlier, continued to apply and expand budgetary technique. In New York City, for example, the budgetary procedure for the entire city government was fairly well worked out by 1912. Meanwhile many commission-governed cities had established budgetary methods with varying degrees of success.<sup>1</sup> With the spread of the strong mayor and the manager forms of city government the budget was extensively adopted as an integral part of municipal financing. Furthermore, the nation-wide campaign carried on to promote the manager form of government emphasized and popularized the value of budgetary methods as applied both to cities and to counties.

To this propaganda may be partly ascribed the fact that many county governments have recently applied budgetary methods to their financial administration and that county budgeting is now required by general legislation in several states. Indeed, some states, notably Indiana, Iowa, and Ohio, have established general budgetary procedure for all the local governments—city, county, and district—within their borders. Since such legislation is part of a plan for uniform state supervision of local finances, the idea will probably be greatly extended in the near future.

<sup>1</sup> See Henry Bruère, *The New City Government*, 1913, Chapter VII.



At length, all this state and municipal activity was crowned by the inauguration of a national budget system in 1921. After several unsuccessful attempts, which need not be recalled here, a federal budget and accounting act finally became law on June 10 of that year. It placed upon the President the responsibility for submitting to Congress each year a complete budget for the national government. It established a Bureau of the Budget, under a Director of the Budget, to serve as a staff agency in preparing the budget for the President. It further created a General Accounting Office under an independent officer, known as the Comptroller General. To promote more efficient legislative procedure for dealing with the budget, each house of Congress took steps leading to the consolidation of its various committees handling appropriations into a single committee on appropriations.

**Obstacles in Applying Budgetary Methods.**—To understand this tardy development of the budget system and the obstacles in the way of applying budgetary methods in the United States, one must start with a consideration of the basic notion behind our governmental structure and then trace the financial experience of the country during the past century.

The notion of which we speak is none other than the idea of the separation of powers, which came into our law and practice soon after the establishment of national independence, partly as a result of political heritage and partly as an outcome of political theory. According to this idea, the powers of our national government were distributed among three distinct branches: executive, legislative, and judicial. By this division of authority, there was set up a system of checks and balances which prevented the development of the type of government that functions through simple legislative majorities, such as has evolved in England. As a practical working scheme this arrangement of our national government has been rather severely criticised by some of our leading publicists. They maintain, in the words of Charles A. Beard, that "the functions of government are only twofold, the formulation and execution of public will—that is, legislative and executive—the judiciary being merely a branch of the law-enforcing power. In this view the separation of powers only creates friction in the government, divides responsibility, necessitates ironbound party machinery outside the government to overcome the unwieldiness of the system, and altogether works for confusion and obscurity instead of simplicity and efficiency." Nevertheless, this idea of the separation of powers has been carried into our state and local governments. It has been followed in the structural arrange-

ment of all the state governments, and until the opening of the present century, it set the pattern for the organization of practically all city governments. Indeed, we may say that while many cities have reorganized their governments by fusing the legislative and the executive powers, our national and state governments are still based on the doctrine of the separation of powers and may be expected to continue indefinitely in their historic form.

With respect to the financial experience under this tripartite scheme, we must note that American practice from the beginning of our government—national, state and local—to the end of the first decade of the twentieth century ran against rather than in favor of making the executive responsible for financial planning and management. When the national government was first established, it was evidently contemplated that a budget would be submitted to Congress each year by the Secretary of the Treasury, acting as the finance minister of the administration. An attempt in this direction was made by Alexander Hamilton under Washington's administration, but it never fully materialized. Very soon thereafter jealousy between the legislative and the executive branches of the government became so intensified that Congress sought executive decentralization in budgetary matters. In this situation the President did not insist upon the exercise of his evident constitutional right to prepare a budget as an administrative proposal, hence the budgetary powers passed to congressional committees. Thus budget making became an exclusively legislative function in the national government and as such it continued for more than a century. State legislatures throughout the country adopted practically the method followed by Congress. Although during the latter part of the nineteenth century there was a slight increase in the power of the governor in many states, he was at best little more than a figurehead with reference to financial planning and management; authority over the state administration was distributed among independent officers, boards, and commissions created by the state constitution or established by statute. These agencies usually applied directly to the legislature for support and were granted the funds which they needed to carry on their work. There was no planning, no coördination of work, no responsible direction from the standpoint of the state government as a whole. Even worse conditions were to be found in the local governments. In the majority of municipalities, the mayor had at best only nominal executive authority; the council appropriated the city funds and together with the independent administrative agencies ran the government. The county governments were, if

anything, in a more serious plight. They were generally without any executive head, even a nominal one. Their financing was authorized in a haphazard manner from year to year through the perfunctory action of the county legislative body.

We had, therefore, at the beginning of the present century, a well-defined type of governmental organization and certain established practices which had to be considered by those who wished to introduce the budget system in the United States. Although they recognized the difficulties involved in attaching a budgetary mechanism to our governmental machine, budget advocates naturally turned for guidance to English budgetary experience—an experience extending over more than two centuries.

*English Budget System not Applicable.*—This, in brief, is what they found on analyzing the operation of the English budget system. The executive, who is the directing head of the administration, formulates the budget, presents it to the legislative body, and carries it into effect after that body has approved it and authorized the appropriations. In making the appropriations, the legislative body—that is, the House of Commons, for the House of Lords has practically no authority in such matters—adheres to the time-honored custom of not increasing the expenditure proposals of the executive. The main reason for this practice is found in the relation of the executive to the legislative body. The executive is the Prime Minister and the members of his cabinet who usually have seats in Parliament and, as a group, form a kind of dominating committee of the legislative body. As head of this committee, the Prime Minister is not only the chief executive of the government but also the responsible leader of the House of Commons. When he fails in this leadership his cabinet falls, and his office is transferred to another who undertakes the responsibility of forming a new cabinet to direct the affairs of the government. Since the budget is ordinarily regarded as the most important proposal that comes before Parliament during the year, the skill with which it is formulated and presented is generally accepted as one of the prime tests of executive leadership. At all events, refusal by Parliament to accept the budget is tantamount to the failure of the cabinet, and this means that under the English system of government the budget has become a powerful instrument for enforcing executive responsibility.

In its bare essentials the English budget system may be summed up as follows: (1) the executive formulates the budget and presents it to the legislative body with an argument supporting at least its major proposals; (2) the legislative body critically examines the

budget, passes upon its proposals, revising them within established limits, if necessary, votes the appropriations, and provides the income required for its execution; and (3) the governmental machinery and procedure are such as to make the executive and his administrative aids fully responsible to the people or their representatives for the proper execution of the budget.

After examining the English budgetary procedure, American budget advocates saw immediately that it was not applicable in its entirety to the United States. It was possible, of course, to establish here the first essential of the English system, although the practice of a century ran counter to it, but the second and third essentials could only be adopted in part because the very structure of the government as well as practice was against any such proposal. It was true that practice might readily be changed, but the separation of powers had to be accepted as a controlling principle. Within these severe, not to say baffling limitations, budget advocates set to work to devise an American budgetary system.

*Attitude of American Legislative Bodies.*—While it was generally agreed that the executive should formulate the budget and submit it to the legislative body, this rule was not acceptable to all governmental units. In some state governments, the legislature was willing to permit the governor to frame a budget for its consideration; in others, it declined to confer on him any special powers in this relation. What was to be done in the latter states? Since nearly all agreed there were certain advantages in having consolidated budget proposals laid before the legislature, even though the governor was not responsible for them, it was suggested that a committee or board representing both the legislative body and the administration should prepare the budget. The governor might be made a member of this committee or board, but he was not to dominate it. In still other states, where the legislature was willing to give the governor the power to formulate the budget, administrative officers, who were independent of the governor, objected to such procedure. To meet this situation a board or commission was proposed consisting of the governor and certain administrative officials. This, in short, explains the origins of budget committees and boards in our state governments; they arose from compromises due to existing administrative organization and to the force of official prerogatives.

In the case of municipalities, the idea of making the executive responsible for the preparation of the budget was easier to put into practice, for changes were already being made in the structure of



many city governments throughout the country, introducing the strong mayor and the manager forms, both favorable to executive initiative in financial affairs. On the other hand, in the old type of city government, a board or committee, similar to those in the state governments, was usually assigned the task of preparing the budget for the council; while commission-governed cities generally vested all budgetary powers in the commission, even though authority to compile the budget estimates was sometimes delegated to a member of the commission or to a subordinate administrative officer.

In the matter of procedure, legislative bodies, particularly in certain of the states, did not take very kindly to the proposal of the budget advocates to refashion their methods of handling the budget after it was presented. Naturally they preferred to continue the standing committee system under which most of the legislative work on the budget was done behind closed doors. They were reluctant to discuss the budget in open session, or to permit the executive and his administrative officers to appear on the floor for the purpose of explaining and defending budgetary proposals. While this procedure was regarded in some quarters as belittling the dignity and authority of the legislature, in others it was attacked for more practical reasons. The strongest opposition, however, developed with respect to proposals for restricting the power of the legislative body to increase the amounts recommended in the governor's budget. Even where members of the state legislatures were willing to limit their action in some directions, they were unwilling to have their power to vote additional appropriations curtailed by the executive. In fact this would have made something of a revolution in our historic scheme which allowed legislators to vote money in any amount and for any purpose they saw fit. The governor might submit his expenditure proposals to them, but they did not want to be compelled to accept his figures as the maximum amounts.

*Effect of Independent Administrative Units.*—When it came to making the executive fully responsible for the administrative work of the government and for carrying out the budget plan, even greater difficulties were encountered. The administrative agencies in a majority of the states were widely scattered; only to a limited extent, as we have already pointed out, were they under the control of the governor. Accordingly, in those states, it was necessary to install a complete plan of administrative reorganization before the governor would be placed in a position to control the making of estimates and the execution of the budget. Even under such a plan, the governor was not directly accountable to the legislature for his



acts; he remained responsible to the people at large. The same rule held true with respect to the mayor in those cities with the mayor-council form of government. Only in those cities with the manager form of government was the chief administrative officer immediately responsible for his acts to the legislative body.

**Divergent Opinions on Budgetary Reform.**—From what has been said, it is not surprising to find that divergent opinions sprang from the attempts to adapt budgetary procedure to these varied conditions in state and local governments, not to mention the national government. Such was the case. For some time after 1912, prolonged arguments arose among budget advocates over the steps to be taken to insure the proper installation of the budget system. Broadly speaking, these arguments were confined to the organization and financial procedure of the states rather than of the municipalities. As we have noted, city government was, at that time, being gradually reconstructed in an attempt to secure better administration and more responsible and capable direction, while practically nothing was accomplished previous to 1917 by efforts to improve state government in this regard. Furthermore, owing to the close similarity in the general structure of the national and state governments, the latter served as a kind of laboratory in which to try out financial reforms and thereby secure data which would promote the adoption of a budget system by the national government.

Those budget advocates who contended that the state executive should be fully responsible for the formulation and the execution of the budget sought, by a reorganization of administrative machinery, to place the governor in a commanding position at the head of the state administration and to readjust the legislative procedure so as to make his leadership effective. Such a proposal was advanced by the New York Bureau of Municipal Research in preparing a plan for the constitutional convention of New York State which met in 1915.<sup>1</sup> Briefly, this plan provided that the governor should be made the real executive head of the administration through a consolidation of the administrative agencies, that he should formulate the budget with the aid of a suitable staff, that the budget when submitted to the legislature should be accompanied by bills designed to carry its recommendations into effect, that the governor and his principal officers should appear before the legislature to defend the

<sup>1</sup> F. A. Cleveland, "Constitutional Provision for a Budget," *Proceedings, Academy of Political Science*, Vol. V, No. 1, 1914, pp. 141-162; "The Constitution and Government of New York State," *Municipal Research*, No. 61, May, 1915, pp. 72-83; and "Responsible Government," *Municipal Research*, No. 69, January, 1916, pp. 1-67, particularly p. 45.

budget or answer questions concerning it, that a procedure should be adopted to permit effective criticism by the minority group or party in the legislature, that the legislature should not be permitted to increase the governor's expenditure proposals, and finally that, in the event of a deadlock between the governor and the legislature, there should be some expeditious method of resolving it.

This proposal was in a large part accepted by the New York convention and embodied in the revised constitution which was defeated at the polls in November, 1915. Only the features relating to criticism by the legislative minority, or the "opposition," as it is termed in England, and to the adjustment of deadlocks between the governor and the legislature were omitted. It was also provided that the expenditure estimates of the judiciary and of the legislature should not be subject to revision by the governor when embodied in the budget, although he was to retain the power of veto over the appropriations voted for these branches. A further provision stated that after the legislature had disposed of all the bills presented by the governor in connection with the budget, it might pass additional appropriation bills, each for a single purpose and subject to the governor's veto. From the standpoint of making the governor responsible for financial planning and for the administrative work of the government, the New York plan was undoubtedly the most comprehensive scheme devised for any state up to that time. It served as a kind of model for the budget amendment adopted by Maryland in 1916, except in the matter of readjustments in administrative organization. It was likewise copied by other states, often in a considerably modified form, as we shall note later.<sup>1</sup>

Immediately after it was proposed, the New York plan was labeled as the "executive budget system," and as such was assailed by a number of critics. Some of them contended that the system made for the aggrandizement of the executive and an improper restriction on legislative authority, leading ultimately to a diminution of popular control.<sup>2</sup> As a counter proposal, they sought to establish legislative leadership by making the state administration directly accountable to the legislature itself. A device to effect this purpose was urged unsuccessfully by the late Charles McCarthy and his associates in Wisconsin. According to their proposal, the heads of the semi-independent administrative agencies of the state were to be brought on the floor of the legislature, interrogated concerning the use of

<sup>1</sup> See below, pp. 27-30, 407-412 and 435-438.

<sup>2</sup> E. A. Fitzpatrick, *Budget Making in a Democracy*, 1918, Chapter III, particularly p. 47.

their funds, and thus made immediately responsible to that body. If the legislature was dissatisfied with the work they had accomplished, it could remove them. In other words, the legislature was to deal directly with these agencies and brush the governor aside as a mere figurehead in the administration. The outcome of this proposal, had it been adopted, might have been the development of leadership in the legislative body, perhaps the establishment of a sort of permanent committee on administration headed by a legislative prime minister; but this is sheer speculation.<sup>1</sup>

**Accepted Basis of the Budget System.**—In the final analysis, the Wisconsin plan, as well as the New York plan, aimed at the establishment of responsible leadership in the state government, especially in formulating and executing the budget. The fundamental differences between the two plans was in the method of constituting this leadership. Was it to be lodged in a floor leader or a special committee of the legislative body accountable to the people through that body, or was it to be vested in an executive elected by the people and independent of the legislative body? The answer to this question was determined by our constitutional system and our political practice. The latter type of leadership, being more in harmony with that system and with the current trend in party management, was accepted.

However, the details of the New York plan have been considerably modified in the more recent budgetary legislation.<sup>2</sup> The restriction placed on the action of the legislature with respect to the governor's expenditure proposals has either been changed to permit freer legislative action or altogether omitted.<sup>3</sup> Indeed, the budget amendment as finally adopted by New York State in 1927, practically dropped this limitation.

As a matter of fact, such a restriction is not generally regarded as an essential feature of the so-called executive budget system. Rather is it thought to be very much out of line with our constitutional system, which assigns the executive and the legislature to separate and independent spheres. A prominent American authority on the budget goes so far as to say that, in his opinion, this restriction does violence to one of the most fundamental ideas of our political system, namely, that "the legislative branch is the policy-determining, fund-raising, and fund-granting organ of the govern-

<sup>1</sup> F. A. Cleveland and A. E. Buck, *The Budget and Responsible Government*, 1920, pp. 113-115.

<sup>2</sup> This legislation in some states merely makes a gesture at the establishment of a budget system; we are here speaking of the best of it.

<sup>3</sup> See below, pp. 407-412.

ment." He then adds: "Until the American people are willing to adopt the principle of responsible government, under which primary responsibility for both formulating and securing the adoption of a governmental program rests in a cabinet composed of a premier or chief executive and the heads of the most important administrative departments, it is a mistake to adopt practices and procedures that lessen this responsibility of the legislature or divide it with the executive. . . . It is our belief; therefore, that, though the responsibility for the framing of a budget should rest squarely upon the chief executive, that of taking action upon such budget should rest with equal definiteness upon the legislature."<sup>1</sup>

Undoubtedly the general trend of thought and practice in the United States is definitely away from the idea that the budget should be determined as to maximum amounts as well as formulated by the executive. Recent budgetary legislation, not only in the national government but also in many state and local governments, leaves the legislative body practically free to modify either upward or downward the budgetary proposals of the executive, especially if sufficient income is provided to meet the authorized expenditures.

With respect to the three main stages through which the budget passes, namely, formulation, determination, and execution, it now appears to be the consensus of opinion that the executive should control the first and third stages, but that the legislative body should dominate the second and be provided with an independent check on the third. This allocation of authority is not only in harmony with our present system of government, but it also seems to be a sound basis for an effective budget system. The future success of budgeting, however, will depend to a very large degree, first, upon the more widespread adoption of administrative structures and methods designed to place the executive in a position of authority with respect to the management of the various governmental services, and, second, upon the establishment of legislative organization and procedure which will permit a thorough and open consideration of the budget before it is authorized and also an effective review of it as executed.

<sup>1</sup> W. F. Willoughby, *Principles of Public Administration*, 1927, pp. 479-480.



## CHAPTER III

### LEGAL BASIS OF BUDGETARY PRACTICE

NUMEROUS laws provide for budgetary practice in the national, state and local governments of the United States. Some of them, especially those incidental to general financial matters, have been enacted over a long period of years; in fact, they date back almost to the establishment of American independence. Most of them, however, have been passed during the last two decades. In several cases budgetary provisions have been inserted in state constitutions, but more frequently they are to be found in statutes and municipal ordinances. In addition to legislation on the subject, there are many court decisions, both federal and state, dealing with different phases of budgetary procedure. We have, therefore, a great mass of constitutional and statutory provisions and judicial interpretations which form the legal basis of our present budgetary practice. Furthermore, there are legislative rules and administrative regulations, many of which have the force of law, that affect directly or indirectly the various steps in public budgeting.

Even a casual examination of the legal provisions governing budgeting in state and local governments reveals the fact that there is no uniformity of requirements. Several states have copied the devices of their neighbors, but in each case there are usually important variations. Even local governments within the same state often have widely different budgetary procedures, although an attempt to correct this diversity or, at all events, to compel the adoption of budgeting by cities and counties has been made in several states by the passage of uniform laws governing local budgetary methods. At best the provisions of budgetary legislation are rarely comparable, especially as between states, on account of the different procedures. All in all, it appears that budgetary laws have been shaped, as has other legislation, under influences, pressures, customs, and traditions which vary widely throughout the country. So we have, as a result, a veritable maze of legal provisions on budgeting.

It is not an easy task therefore to summarize the essential provisions of budgetary legislation in the United States, especially those pertaining to state and local governments. Moreover, the laws of the latter units are being amended every year, so that a complete



digest, besides being difficult to make, is soon out of date. Even a summary calls for a careful examination of scores of budget laws and ordinances.

In the brief discussion of budgetary legislation contained in this chapter, the writer has attempted mainly to set forth the prime sources of the various provisions which constitute the legal groundwork of our national, state and local budget systems. These provisions, it will be observed, relate particularly to the authority which prepares the budget and its staff agency, to the requirements with respect to the budget document and budgetary information, to the general budget-making procedure, and to the execution or carrying out of the budget plan as adopted. No attempt is here made to evaluate this legislation in any of its different phases; for a discussion of the various legal provisions in connection with their practical application the reader must look to subsequent chapters of this book.

**The National Budget Law.**—The national budget and accounting act, passed in 1921, establishes a budget-making authority, creates a budget staff agency, outlines the contents of the budget document, and lays out part of the procedure of formulating and adopting the budget. It makes the President responsible for the preparation of the budget. He might have assumed this responsibility under previously existing laws, but Congress was not yet prepared for executive direction in this regard.<sup>1</sup> In effect, the budget law was merely a declaration on the part of Congress that it was ready for executive leadership in formulating the budget.

To assist the President in the preparation of the budget, the law establishes a special staff agency, the Bureau of the Budget. Although this Bureau is attached by law to the Treasury Department, it operates, as a matter of fact, directly under the President; he appoints its head, who has the title of Director of the Budget.

The law outlines in considerable detail the contents of the budget document, although no definite form is prescribed. It fixes the date for transmitting the budget to Congress, and permits the President to make certain amendments to his expenditure proposals after the budget reaches that body. Beyond this point, the law in question contains no further provisions on budgetary procedure. The collection of the estimates is governed by several measures which antedate the budget law by a number of years, and also by recent executive orders issued by the Bureau of the Budget. Congressional action on the budget is controlled largely by legislative rules, some

<sup>1</sup> See C. W. Collins, *The National Budget System*, 1917, Chapter XI.

of them of long standing. Under these rules, Congress has retained its power to modify in any way it sees fit the President's budget proposals. However, as we have already noted, Congress has consolidated all committees handling appropriation measures into one big committee in each house with a number of subcommittees.

On the execution of the budget after its adoption by Congress in the form of appropriation and revenue bills, the budget law is silent except in so far as it provides for the establishment of a General Accounting Office. This office is under the direction of the Comptroller General, who is independent of the administration. Although he is appointed by the President, he holds office for fifteen years and is removable only by joint resolution of Congress or by impeachment. The Comptroller General is vested with the power to control treasury receipts and issues, and to settle and adjust all claims either due or against the national government. He is required to report to Congress at the beginning of each regular session. In the discharge of his duties he must make rulings on the expenditure of funds, which have on several occasions been tested in the courts.

Control over the expenditure of appropriations by a system of administrative allotments, now under the supervision of the Bureau of the Budget, had its origin as far back as 1906 in the so-called "anti-deficiency act" passed at that time. Other laws relating to the spending of appropriations antedate that measure and several have been enacted since. Superior to these in law are certain provisions in the federal constitution; one of which is particularly important in this connection, because it forbids the drawing of any money from the treasury except in consequence of appropriations made by law. Since the enactment of the budget law, a number of executive orders relative to expending appropriations have been issued through the Bureau of the Budget for the general purpose of making the federal departments and offices adhere more closely to the budget plan.

**State Budgetary Legislation.**—As we have indicated in the preceding chapter, all the forty-eight states have enacted budgetary legislation, although in several instances it cannot be said to be very satisfactory. Practically all this legislation has been put on the statute books since 1911; some of it, however, has been revised and reenacted several times.<sup>1</sup> In seven states, as already noted, budgeting is now required by constitutional amendments. These states and the dates when the amendments were adopted are: Maryland

<sup>1</sup>For the dates of these laws and important changes subsequently made, see Appendix I.

(1916), West Virginia (1918), Massachusetts (1918), Nebraska (1920), Louisiana (1921), California (1922), and New York (1927). In most instances, these amendments are comparatively brief and are supported by statutory provisions setting forth in detail the budgetary procedure. Among the dependencies of the United States, the Philippine Islands has a budget law approved by Congress in 1916, and the Territory of Hawaii has one adopted in 1925. Alaska and Porto Rico also have some legal provisions with regard to budgeting.

For many years previous to the enactment of the foregoing legislation (in fact, since the establishment of the various state governments), there had been provisions in all the state constitutions relating to the appropriation of moneys. As a rule, these provisions placed certain limitations on the action of the legislature; frequently they restricted administrative discretion; and sometimes they were of such a character as to hamper the installation of satisfactory budgetary procedure. Supplementing constitutional and statutory provisions were rules and regulations governing legislative procedure in handling appropriation and revenue measures—rules and regulations which were not always changed to conform with the spirit of later budgetary legislation.

✓ Perhaps the outstanding feature of the more recent legislation is the creation of budget-making authorities in the different states. Through this legislation the state lawmakers have established four general types of authorities charged with formulating the initial budget plan. The first of these is called the "executive type," because, according to its requirements, the governor is responsible for preparing the budget to lay before the legislature. This is by far the most popular form, thirty-three states having adopted it by the beginning of 1929. The second is the "administrative board type," under which a group of administrative officers, usually including the governor or some of his appointees, is made responsible for preparing the budget. The purpose of this arrangement may be either to associate the more important of the independent administrative officers with the governor in the formulation of the budget, or to surround the governor with a board so constituted as to restrict his influence on financial planning. Ten states vest the initiation of the budget in this type of authority. The third type is the "administrative-legislative board," composed of administrative officers, including the governor, and members of the legislature. The chief design of this agency, now found in four states, is to bring the legislative body into the initiating stage of the budgetary procedure.

Finally, there is the "legislative type," which leaves the preparation of the budget to a committee of the legislature. This type exists in only one state—Arkansas.<sup>1</sup>

Besides providing budget-making authorities, the budget laws of more than half the states create permanent staff agencies to serve as technical aids. These agencies may be departments of finance, budget bureaus similar to the national Bureau of the Budget, or special officers. In some cases where the law does not provide for a permanent staff agency, the budget-making authority is authorized to employ temporary help in preparing the budget.

While all the state budget laws naturally provide for the preparation of some kind of budget document, they do not in every instance deal with the form or contents of this document. In fact, they rarely prescribe the form in which it must be set up, although they do indicate part or all of the information which must be contained in it. The provisions of certain laws are general, while those of others are quite detailed. Strange to say, the most detailed provisions are occasionally to be found in constitutional amendments.<sup>2</sup>

The budget laws of more than a third of the states require the governor or other budget-making authority to submit to the legislature appropriation bills covering the requirements for expenditures. These bills are sometimes made a part of the budget document, which is entirely proper as we shall explain in a later chapter. Sometimes there are legal provisions for a single, consolidated appropriation bill. While the present tendency appears to be clearly in the direction of cutting down the number of appropriation bills and of vesting the duty of preparing them in the governor or other budget-making authority, it will probably be a long time before this can be fully realized on account of the various constitutional provisions in force in many of the states. A few state budget laws require the governor or other budget-making authority to submit bills incorporating all proposals for increases in revenue which may appear in the budget.

Several states prescribe by law the classification that is to be followed in bringing together the expenditure information for the preparation of the budget. In many instances the form of the estimates and the nature of the information to be secured are indicated

<sup>1</sup> See Appendix I for the names of the states classified according to the types of agencies responsible for initiating the budget in the legislature. It must be borne in mind that this classification is based entirely upon the legal provisions and not upon the practice that prevails in the various states.

<sup>2</sup> On this point see "A Model State Constitution," a pamphlet published by the National Municipal League, third edition, 1926.



in the budget laws. Practically all of the state budget laws fix a date for the filing of the expenditure estimates with the governor or other budget-making authority. Some even go so far as to fix the date on which the estimate sheets must be sent out to the spending agencies—a matter which might properly be left to executive orders. The date for submitting the budget to the legislature seems to be the only one that should be definitely established by law. Indeed, this date is legally fixed in practically every state.

Every state has some legal provisions relative to budgetary procedure in the legislature, though these are not always found in the regular budget laws. Several states limit the action of the legislature on the budget, especially in the passage of appropriation bills. The more drastic limitations of this kind are to be found in some of the budget amendments. Their effect on legislative action is discussed in Chapter XIII. The governor's veto power of legislative acts, including his veto of appropriation items, is a constitutional grant. However, it has been the source of much litigation during the last three decades, and a number of court decisions are to be found on the subject.

The procedure to be followed in executing the budget after it has been authorized by the legislature is usually prescribed, if at all, by general statutes relating to fiscal methods. These statutes have ordinarily been enacted from time to time over a long period of years, hence the earlier methods laid down by them are more or less archaic and do not properly support the later methods. In the states which have recently reorganized their administrative machinery, the legal provisions relative to financial procedure have, as a rule, been greatly improved. This procedure now includes such things as a work program, modern accounting methods, purchasing and stores regulations, personnel supervision, and auditing control.

**Budgetary Legislation for Local Governments.**—The charters of nearly all the larger cities in the United States contain general provisions for budgetary procedure. These provisions are usually supplemented by local ordinances setting forth in detail the methods which are to be followed in budgeting. In many instances, there are also councilmanic rules and administrative regulations relating to municipal budgetary practice which have the force of law. Furthermore, the cities within each of several states have recently been brought under the provisions of uniform budget laws.

The authority designated to formulate the budget under municipal legislation usually depends upon the form of the city government. Under the centralized mayor-council form of city govern-

ment, the mayor is usually the budget-making authority; under the manager form, the budget is generally prepared by the manager. In the commission-governed cities, this responsibility rests upon the commission, which exercises both the executive and the legislative powers. Where the old, disintegrated form of city organization still exists, the council sometimes exercises authority over the preparation of the budget. If this authority is delegated, it is usually vested in a board consisting of both legislative and administrative officers rather than in the mayor. Hence, we have in city governments practically the same types of authorities to formulate the initial budget as those that exist in the state governments.<sup>1</sup> The law provides that many of these authorities shall have special staffs to assist them in the preparation of the budget.

The contents of the city budget document are often prescribed by law, although not always in the same detail as that of state budget documents. In a number of cities, however, the only document really required by law is an itemized appropriation bill. A classification of the expenditures presented in the budget document is frequently required by law. The time of preparing the budget estimates is usually fixed, as well as the date when the budget must be submitted to the council. But councilmanic procedure in acting on the budget generally rests upon rules and practices. In some instances, however, certain legal restrictions are imposed upon the action which the council may take on the budget.

From an organizational standpoint, the chief administrator in many cities is in a very good position effectively to execute the budget. Control methods, however, are not generally developed to any greater extent in cities than in states. For this reason, certain states have found it advisable to provide by general law for central supervision over the municipalities within their jurisdiction, particularly in the matter of financial reporting and auditing of accounts.

Several counties in different parts of the United States have instituted budgetary procedure under special legislation; at the same time, many of them are required to do so by general laws in a number of states. Some of these laws have been recently passed, notably those of California, Kentucky, North Carolina, Ohio, Virginia, and Washington. Generally speaking, counties are required to follow practically the same budgetary procedure as that outlined for cities under uniform state laws. Since county governments are ordinarily without an executive head, some county officer, or board composed of important county officials, is usually designated to prepare

<sup>1</sup> See above, pp. 28-29.

the budget for the local legislative body. In a few instances the county budget must be submitted to a state agency and receive its approval before becoming effective. The legal provisions with reference to county budgeting are sometimes applied to the special districts or other subdivisions within the state, such as townships and school districts. In some states, for example Ohio, provision is made for the coördination of the budgetary requirements, particularly on the revenue side, of all local governmental units within each county, the idea being to prevent overlapping jurisdictions from imposing taxes which in the aggregate would become burdensome on the property owners.

Several states have enacted general legislation looking toward uniform budgetary methods for all local governments—city, county and district—within their jurisdictions. Among the more notable of these states are Indiana, Iowa, Massachusetts, New Jersey, New Mexico, Ohio, and Washington. The provisions of these general laws differ widely; frequently they relate to financial functions other than strictly budgeting, such as taxation, debt supervision, accounting methods, and auditing control. In some instances, the control which these laws establish on the part of the state government is merely nominal; in other instances, it is very real and sometimes rather drastic. The legal provisions of Indiana, Iowa, and New Mexico illustrate the latter type. In Indiana the state tax commission has the authority to reduce a local budget after a hearing in the locality affected. Action may be started on the part of the commission by the protest of ten citizens of the community. In Iowa a similar procedure is followed, the state director of the budget being the reviewing agent in this case. In New Mexico a copy of every local budget must be filed with the state tax commission. This commission has the authority to increase or reduce the budget of any local government, the decision of the commission being final.

Since it seems highly desirable to extend the application of uniform budget methods to all the local units in the different states, the National Municipal League through a special committee has recently drafted and proposed a model budget law for local governments.<sup>1</sup> Such a law, if widely adopted, will not only make for uniformity within each state, but also between the different states. The latter condition is much to be desired, assuming it can be brought about in the present stage of budgetary development.

<sup>1</sup> See "A Model Municipal Budget Law," supplement to the *National Municipal Review*, July, 1928. Also printed separately as a pamphlet.

**The Technique of Public Budgeting.**—Any synthesis of legal provisions, budgetary or otherwise, is likely to be nothing more than sterile generalization unless related to the realities of practice. Budgetary methods are determined not alone by the laws briefly described above, but by the practices that prevail in the various governmental jurisdictions. The law may specify one thing; practice may produce quite another. A governmental budget system does not spring fully developed from a simple legislative act or a mere executive order. It is perforce built up slowly as technical devices are perfected and public understanding broadened. As it evolves, the provisions of law are usually changed or amended to bring them into conformity with the trend of development. For this reason, we shall emphasize throughout the subsequent chapters of this book the practical, rather than the legal, side of budgeting.

Two decades ago, discussion of public budgeting was largely speculative, dealing with the theoretical and legal aspects of the subject; it had no practical basis so far as the experience of the United States was concerned. But this is no longer the case. During the past ten years, particularly the last five, there has been a rapid accumulation of experience on the technique of budgeting in our different governmental units—national, state and local. From one side of the country to the other, public officials and specialists in finance have been, and still are, busy working out the details of budgetary methods and readjusting the various steps of existing financial procedure to meet the requirements of scientific planning. As a result, we have, even in this brief period, accumulated a large amount of information on the working of the budget system in this country.

We have already reached a point in our financial experience where budgetary procedure is fairly well defined, at least, in so far as it relates to the formulation and adoption of the budget. On the execution of the budget, the practice of several governmental units during the last five years undoubtedly points the way to the proper methods which should be employed. It is apparent now that public authorities generally appreciate the need for budgetary control, without which the budget is a mere "paper" plan. Their efforts in this direction are, in several instances, most promising.

The time is ripe, it seems, and the necessary information is at hand for a comprehensive treatment of the technique of public budgeting in the United States. Undoubtedly the further development of the budget system would be greatly aided, if the budgetary experience of the country to date were brought together, properly



related, and fully discussed from a practical standpoint. This is, in brief, what the writer has attempted to do in the subsequent pages of this book. The method of treatment is a simple one, and, it is hoped, one that will appeal to the reader's good judgment. The discussion which follows is divided into three parts, dealing with (1) the budgetary forms and information, (2) the budget-making procedure, and (3) the execution of the budget. The budget, as a document, is taken up first because it is the *raison d'être* of everything that follows. Several things are more or less automatically decided once the budget document has been determined as to its form and contents. The more important of these are the nature and classification of the budgetary information, the character of the estimate forms, and the methods of bringing together the financial data. The next part of the book is devoted entirely to a discussion of the procedure followed in formulating and adopting the budget. The last part deals with the execution of the budget as the financial and controlling plan of the government.

## PART II

### THE BUDGETARY FORMS AND INFORMATION



## CHAPTER IV

### THE BUDGET DOCUMENT

THE budget document, broadly speaking, is a collection of papers or statements setting forth the financial plan, or the budget, of the government. It presents, in addition to this plan, certain information about the past and present operations of the government which supports the proposals for raising revenues and for making expenditures. It may also include whatever bills are required for legislative authorization of the budget.

To put it another way for the sake of emphasis, the budget takes shape in the budget document as soon as it has been definitely formulated. By means of this document, the budget is presented to the legislative body for consideration and action; at the same time, it is usually made available, in printed or other form, for the information of the public.

Our discussion in this chapter is devoted solely to the budget document as prepared by the budget-making authority. Before we take up the form and contents of this document, we shall examine from several angles the comprehensiveness of the budget, representing, as it does, a definite plan for financing the government.

**The Comprehensiveness of the Budget.**—By the comprehensiveness of the budget, we mean, in brief, its unity and completeness. Does the budget include in their proper relations *all* the expenditures and *all* the income of the government to which it applies? If it does, then, as the financial plan of that government, it can be said to be fully comprehensive. The noted French writers on the budget, René Stourm and Gaston Jèze, refer to this characteristic of inclusiveness as the rule of universality (*règle de l'universalité*). They are emphatic in calling it one of the fundamental rules to be applied in the formulation of the budget.

Generally speaking, the budgets of our different governmental units—national, state and local—cannot yet be regarded as being fully comprehensive. Much remains to be done if the rule of universality is to be widely realized, even in a practical way. The national budget does not comprehend all the financial transactions of the government. Over \$79,000,000 of permanent and indefinite appropriations were included in the 1929 budget, which had not



previously appeared in the budget. The transactions in certain funds which do not reach the Treasury are still not included. Even so, the national budget is perhaps more complete than that of any other governmental unit in the country.

In several state governments a special effort has been made to produce a comprehensive budget. For example, California, Massachusetts, and Maryland have legal provisions which require that all proposals for financing the state government must be shown in the budget. Yet with such provisions written in the state constitution, it has been difficult in some cases on account of political or departmental opposition to make the budget fully comprehensive. California provided an instance of this kind. Although the budget amendment was adopted in 1922, nothing like a complete budget was produced until 1927. The budgets prepared in 1923 and 1925 contained only about six-tenths of the total state expenditures.<sup>1</sup> In several states, the budget contains only the operating expenditures of the state government and oftentimes not all of these, certain special funds being excluded. Sometimes the legislative expenditures are left out of the budget, each session authorizing its salaries and expenses as it goes along. The expenditures of certain state departments or institutions are frequently excluded from the budget for one reason or another. The highway department of North Carolina, for example, is specifically exempt by law from inclusion in the budget, owing to the alleged difficulty of budgeting its construction program two years in advance. Likewise, the highway department of Tennessee is omitted from the budget in practice, although this is not permitted by law. Other states, notably California, Illinois, Massachusetts, New York, and Washington, include the highway departments in their budgets, laying out definite construction and maintenance programs extending over the entire fiscal period, which in the case of three of these states is a biennium. While the planning of rapidly expanding construction programs is quite difficult, it is not sufficiently so to be made an excuse for leaving such departments out of the budget. Not only is it possible to lay out construction projects two years in advance, but it is highly desirable to plan such work in this way. State institutions, particularly educational institutions, are sometimes excluded from the budget because they are maintained by mill levies or other special sources of revenue. This is likewise undesirable; they should be included in the budget no matter what the sources of their income may be. When so included, they are required to plan their finan-

<sup>1</sup> See California state budget, submitted to the 1927 legislature, p. iv.

cial needs in relation to each other and to other agencies of the state government, not as so many isolated institutions.

Many city budgets are not comprehensive; in fact, the majority of them contain very little more than operating expenditures and sometimes not all of these.<sup>1</sup> Although the New York City budget for 1927 totaled about \$475,000,000, the city comptroller stated that it should have carried in the aggregate approximately \$530,000,000. Even at this larger figure, millions of dollars for the construction of subways, schools, hospitals, streets, etc., were still excluded from the budget. When the 1928 budget was being prepared, discussion waxed hot over the need for an "honest budget," one that would show something like a complete picture of the city's financial requirements. Although this budget totaled \$512,000,000, it was still about as incomplete as the preceding budgets had been. A study of the New Orleans city government made by the New York Bureau of Municipal Research in 1921 revealed the fact that the various municipal agencies spent about \$16,000,000 annually, but only a little over \$6,000,000 of this amount appeared in the city budget. In a report made by the San Francisco Bureau of Governmental Research on June 6, 1928, it was pointed out that the budget for 1928-29 adopted by the board of supervisors of the consolidated city and county government totaled a little over \$25,000,000, while the anticipated expenditure requirements were approximately \$56,000,000. Outside the budget were the requirements for certain construction projects, the operating and other costs of the public schools and of the municipal railways, and a large amount of nonbudgeted revenues, mostly mill levies, for parks, playgrounds, libraries, and debt retirement.

Lack of comprehensiveness in the budget, such as we have just noted, does not usually depend upon any legal provisions; it is mainly a matter of practice in the different governmental jurisdictions. There seems to be no uniformity in either state or local governments as to what agencies or funds may be included in or excluded from the budget. For example, certain agencies which use directly the revenues they collect in the course of their work are included in some cases and excluded in others. They are frequently excluded on the ground that the revenues which they take in do not reach the central treasury and hence should not be budgeted, it being assumed that there ought to be no budgetary control over funds which do not pass through the treasury. This is, of course, a practice which

<sup>1</sup> Capital expenditures are often excluded. Occasionally the operating expenditures of public utilities are also excluded.

cannot be defended on any basis of sound finance. Agencies which are supported by mill levies, dedicated funds, or permanent appropriations are sometimes excluded from the budget. This is likewise improper. There appears to be no valid argument for the exclusion from the budget of any *bona fide* governmental agency. However, there is one class of agencies which would seem to warrant special treatment in the budget, that is, the business or industrial enterprises of a self-sustaining character which are owned and operated by the government. We shall now discuss the relation of these agencies to the general budget.

*Public Enterprises and the Budget.*—The number of public enterprises of a commercial nature has greatly increased in recent years, especially among our local governments where several kinds of utilities are now publicly owned and operated. The most common of these utilities is the municipal water system, although light plants, street railways, and gas plants are frequently run by city governments. A few state governments, notably the two Dakotas, have gone quite extensively into the operation of public enterprises. North Dakota has a state bank and certain state industries, such as a flour mill and a grain elevator. South Dakota also has such industries as a cement plant, a coal mine, and a twine factory. Other states have canals, mines, and even railways. Several states carry on insurance businesses of one kind or another. The national government has several enterprises of a commercial nature, notably the Postal Service, the Panama Canal, the Alaskan Railway, and the Merchant Fleet Corporation.

According to American practice, there seem to be three methods of handling the financial requirements of public enterprises with respect to the general budget of the government. The first method is to leave the requirements of these enterprises completely out of the general budget, setting up an independent budget to finance each enterprise; the second method is to include them in the general budget in gross amount; the third method is to include them in the general budget, but only in net amount, showing each enterprise as a separate self-supporting unit of the government.

The first method, namely, that of excluding the financial requirements of public enterprises from the general budget of the government, is followed quite widely in this country. In North and South Dakota, for example, the public enterprises are excluded from the general state budgets, each enterprise being operated on a budget of its own. It is presumed that these enterprises are self-supporting, but in the event they should not prove to be so they would then

require support in the form of an appropriation or special tax which would be taken into account in the general budget. If they should prove to be profitable to the state government, any profits might then be turned into the general fund and thus affect the general budget. But no attempt is made to show this situation as it affects the general budget each biennium; only when conditions with respect to the enterprises reach a point where action cannot longer be deferred are they considered in connection with the general budget. Another example of independent budgeting is the San Francisco municipally owned and operated utilities, the principal one being the street railways. A proposal has been made and is now in the course of adoption which provides for a separate annual budget for each utility. These budgets are passed by a special utility commission and then filed with the mayor and the city legislative body. They have no relation to the general budget of the city government. Each utility is supposed to be self-sustaining, although if it should operate at a deficit the city legislative body would be expected to make appropriations in the general budget for its relief.

Under this method of independent budgeting, it is possible for deficits of a serious nature to develop in the finances of public enterprises before governmental authorities become aware that they are not making both ends meet. In the case of utilities, the rates may be raised to meet the deficit. When this is done, however, it amounts to compelling the customers of a later period to pay part of the bills of the customers of the period under which the deficit was created. The other alternative is to meet the deficit out of the general budget of the government, which may mean that the cost of poor utility management is spread over the whole population regardless of whether or not they are customers of the utility. In the case of other public enterprises, which are less monopolistic than utilities, it is almost impossible to increase the price of their services or goods in order to cover a deficit, since they are in competition with private enterprises producing the same services or goods. This means that any deficit in operation must be met out of the general budget of the government.

The budgeting of the operation, maintenance, and other costs of publicly owned enterprises in connection with the general budget of the government appears to be the most satisfactory manner of handling these agencies. Any financial arrangement which tends to isolate such enterprises from the other agencies of the government should be avoided. The first method, mentioned above, may therefore be regarded as unsatisfactory. It finds very little support in



European practice. The Swiss railways, it is true, are operated as an independent concern, quite apart from the general administration, the only connecting link being that the general budget grants a subsidy to the railways in aid of electrification. The German railways are also operated as an independent enterprise. They were transformed into an autonomous undertaking—the *Reichsbahngesellschaft*—under the provisions of the London Protocol of 1924, embodying the experts' plan for reparations. Since March, 1924, the German postal service has also been an autonomous undertaking. Generally speaking, however, the public enterprises of the several European governments are definitely related to the general budgets, their financial requirements being shown either in gross or in net amounts, usually by the latter method.

The second method, by which the financial requirements of public enterprises are included in the budget in gross amounts, is practiced in several of our governmental units. The tendency among city governments is to include in the general budget the total revenues and expenditures of municipally owned water systems. Indeed, it is common to find the gross figures, both income and outgo, for city water supply in the general budget. In several instances, the total requirements of all city utilities are included in gross amounts in the general budget. For example, Rochester, New York, presents the gross requirements for its water supply and public markets in the general budget; Cleveland, Ohio, shows its water, light, and power utilities in the general budget; Seattle, Washington, includes its water, light, and street railways in the general budget. In these cases, however, the earnings of each utility are kept in a separate account or fund and not mingled with the other funds in the city treasury. Examples of commercial enterprises among the state governments whose gross requirements are included in the general budget are the New York state canal and the industrial insurance business of the state of Washington. The latter amounts to about \$6,000,000 per year. The general budget of the national government comprehends various public enterprises, but in some cases their total requirements are not included. Only the net expenditures of the Merchant Fleet Corporation, which amounted for 1928 to about one-fifth of the gross total of almost \$125,000,000, were shown in the general budget. In the case of the Postal Service, only the operating deficit is shown in the general budget. This deficit was estimated in the 1930 budget to be about \$71,000,000 in a gross operating expenditure of \$806,000,000. The Panama Canal is handled in still another way. Only \$7,600,000 of its gross expenditures

for 1928, amounting to over \$25,000,000, was appropriated through the general budget. The other part was paid directly from the gross receipts of the canal, approximating \$44,000,000 for that year, and the remainder of these receipts was turned into the general treasury.

Two main objections have been raised to including in the general budget of the government the total receipts and disbursements of public enterprises. In the first place, these gross figures unduly swell both sides of the budget, thus giving the members of the legislative body and the citizens an exaggerated impression of the cost of the general government. By including, for example, the water supply, light plant, and street railways in the general budget of Seattle, Washington, the budget total for 1929 was more than doubled—instead of a little less than \$13,000,000, it totaled over \$27,000,000. To finance it the direct tax imposed upon the property holders of Seattle amounted to about \$11,000,000. This would not be apparent from the gross total of the budget. In the second place, it is considered better governmental policy to operate each public enterprise on a self-sustaining basis. This means that its receipts from earnings and otherwise must not be merged in the general treasury, but that their identity must be maintained through separate accounts and the expenditures of the enterprise met from them. The management of each enterprise along these lines can be greatly facilitated if it has a separate budget which is definitely related to the general budget.

Here again, the occasional American practice of including the gross receipts and expenditures of public undertakings in the general budget is not ordinarily supported by European usage. The public undertakings (and there are many) of most of the European governments are now budgeted so that their financial requirements no longer appear in gross amounts in the general budget. Only the net surplus or deficit of each undertaking is carried into the general budget. Several governments, notably those of France, England, Norway, and Czechoslovakia, have recently adopted this method. Some of the other European countries have followed it since before the World War. It should be pointed out, however, that this method is not applied in the case of public monopolies. For example, the fiscal requirements of the French public monopolies over tobacco, gunpowder, and chemically prepared matches are included gross in the general budget. The latter practice, however, does not interest us, since we have no public monopolies in the United States.

The third method, according to which the expenditures of each public enterprise are charged directly against its receipts and only

the net result from operation shown in the general budget, is very little used, as yet, by the governmental units of this country. An attempt is made in the national budget to place the Postal Service on a net basis. A separate account is set up in the general fund of the Treasury through which the postal receipts and expenditures are handled, the net surplus or deficit (usually the latter) being included in the general budget. This method of handling the financial requirements of the Postal Service has made it necessary to explain the summary of the national budget by adding this phrase: "exclusive of postal revenues and postal expenditures paid from postal revenues." State and local governments frequently provide that their public enterprises must be financed on a self-sustaining basis. In order to insure that this is being done, they set up a separate account or a special fund to receive the receipts of each enterprise, but they seldom, if ever, show the net result of operation in the general budget. The requirements of the enterprise either go into the general budget in gross, or they are entirely omitted.

Notwithstanding the limited experience which we have had with the third method, it obviously has certain advantages over the other two methods. It permits each public enterprise to be related to the general budget and yet have its financial requirements set up separately. This can be accomplished through an annexed budget attached to the general budget, as we shall explain later.<sup>1</sup> The net results of the operations of the enterprise as shown in the annexed budget are tied into the general budget. In this way, one avoids putting the gross figures of the enterprise in the general budget and at the same time does not have to resort to an independent budget. This method, therefore, does not destroy the comprehensiveness of the general budget. From the standpoint of the enterprise, it does not interfere with operation on a self-supporting basis and along the same lines as a similar enterprise which is privately owned and conducted. European experience, as we have indicated above, is quite favorable to this method of setting forth the financing of public undertakings. The recent trend among the governments of Europe has been decidedly in the direction of showing in the general budget the net rather than the gross requirements of these undertakings.

*Various Public Funds and the Budget.*—Turning from governmental agencies to public funds, let us examine the latter briefly in respect to the comprehensiveness of the budget. Certain public funds are often omitted from the budget. A number of local budgets and a few state budgets cover only the expenditures which are made

<sup>1</sup> See below, pp. 104-107.

from the general fund. They are therefore little more than current operating budgets; they do not show expenditures from special expendable funds, such as bond funds, special assessment funds, and so forth. This generally means the omission of a considerable part of the expenditures for the acquisition of properties, since, in most local governments, properties are acquired to a large extent through the sale of bonds or the levy of special assessments. For example, in New York City corporate stock (long term bonds), serial bonds, and tax notes are issued each year in large amounts, only a small part of which is accounted for in the so-called city budget.<sup>1</sup> The budget of Detroit is one of the few city budgets which include all the expenditures from bond funds made during the fiscal year by the city government, but it does not include several million dollars of special assessment funds.

Sometimes the position is taken that the expenditure of money from bond issues should be reflected in the budget only as it is repaid in the form of interest or principal, since this constitutes the only actual governmental expenditure involved.<sup>2</sup> It will, of course, be admitted that there is an apparent duplication in the budget due to showing expenditures made from the proceeds of the sale of bonds and also expenditures at a later date for the redemption of these bonds. Furthermore, it is true that the only actual expenditure on the part of the taxpayers is in meeting the interest and retirement charges on the outstanding bonds. But it must be borne in mind that if the budget is to comprehend both current and capital transactions, as it should do, it must show the total expenditures for such purposes to be made by the government during the fiscal period and the total means of financing these expenditures. If work is to be carried on by the government which is to be financed by the issuance of bonds, it should by all means be shown in the budget. Otherwise, the financial plan of the government for the fiscal period will be incomplete—will present a false picture of its actual obligations and commitments. At the same time, the payment of interest on bonds outstanding and the redemption of bonds from current revenues either by direct payment or through contributions to a sinking fund must be shown in the budget. This is necessary in

<sup>1</sup> The New York City budget for 1929 was fixed at \$538,928,697 in November, 1928. In January, 1929, proposals for the additional appropriation of \$167,121,447 to be financed by the issuance of corporate stock, serial bonds, and tax notes were placed before the board of estimate and apportionment. On March 15, 1929, this board approved these proposals to the extent of \$156,552,450.

<sup>2</sup> See the California state budget submitted to the 1927 legislature, page v, where Governor Young makes such a statement in his budget message.



order to determine the complete revenue requirements of the fiscal period covered by the budget.

The contributions made to sinking funds usually appear in state and local budgets. It is not necessary to show in the budget the actual payments made from these funds, since the payments, as well as the investment of the funds, are generally controlled by special legal provisions. However, the condition of each sinking fund, determined on an actuarial basis, should be shown as of the beginning of the fiscal period covered by the budget and the budget-making authority should be governed accordingly in recommending contributions to it, unless otherwise required by law.

The income from endowment funds is often omitted from the budget. This is due to the fact that such funds are frequently kept and invested by the institution or agency for whose support they have been given, so that the income from them is regarded as merely supplementing the appropriations which the institution or agency gets from the government. In other words, the income from endowment funds is regarded as "dedicated" money, which does not require an appropriation in order to spend it. But this is not a good and sufficient reason for excluding such funds from the budget. This is true also of other income of institutions and agencies which is sometimes not turned into the general treasury of the government. It should likewise be included in the budget as a part of the means of financing the institution or agency during the fiscal period. To exclude it, as is done in some of the state and city budgets, is to present an incomplete picture of the financial requirements of those institutions or agencies which have miscellaneous earnings from operation not accounted for through the general treasury. A net budget, as we shall explain later, may exclude income of this character from its total, but it does not leave such income entirely out of account. The most approved practice, at the present time, is to require all earnings and other receipts of the regular institutions and agencies of the government to be turned into the general treasury, but even when they are not so deposited, they should nevertheless be budgeted.

Something should be said in this connection about working capital funds and suspense funds.<sup>1</sup> Working capital funds, often called "revolving" funds, are sometimes included in the budget and the expenditures to be made from such funds are appropriated. But this is unnecessary and should not be done, except where it is required to satisfy existing law. An appropriation is usually re-

<sup>1</sup> For definitions and further discussion of public funds, see below, pp. 211-214.



quired for the establishment of a working capital fund, but when once set aside the fund may be expended without further action by the legislative body, the expenditures from it being under administrative direction. As goods or services are produced and sold the fund is replenished from the proceeds of the sales, so that additional appropriations are not required to maintain the fund except when it is dissipated through bad management. Suspense funds, likewise, should not be included in the budget, except as they may enter into surplus available at the beginning of the fiscal period covered by the budget. Such funds cannot be expended until they are transferred to other funds, whereupon they lose the characteristic of "suspense."

*The Budgeting of Special Assessment Funds.*—At the present time, special assessment funds present a rather difficult problem in budgeting. These funds, which are quite common in local governments throughout the United States are seldom, if ever, included in the general budget. In fact, it is sometimes argued that inasmuch as they are contributed for local improvements by the benefited property owners, they are therefore in the category of private funds and should not enter into the budget. But this is not true, if we view special assessment funds in the proper light. Some of the difficulties of budgeting these funds have been pointed out by Philip H. Cornick of the National Institute of Public Administration as the result of a country-wide study of special assessments. With reference to this point, Mr. Cornick says:

Leaving out of consideration all questions of historical origin and legal theory, the special assessment enclaves have become, to a large extent, little more than convenient subdivisions of the general municipal government. There are, however, certain factors which seem to complicate the problems of including their operations in the general budget. The divisions of government whose activities have in the past been successfully drawn into one controlling financial document—those which administer the functions of education, of public safety, or of water supply, for example—operate throughout the city, and are separated from one another along purely functional lines. The special assessment enclaves, on the other hand, are not only functional divisions but they also have certain other distinguishing characteristics which are geographical and fiscal in their nature. Furthermore, they exercise, in theory at least, certain powers of local self-government—a fact which makes it difficult to fit their undertakings into the rigid calendar necessary for comprehensive budgeting.

Each district, of course, has its own independent budget. In theory, at least, the expenditures are exactly balanced by revenues; and even in practice, this balance in many states is accurate to the cent unless unforeseen conditions intervene to upset it. The most common arguments for including all special assessment projects in the general budget are based on the facts: (1) that when the local improvement budgets do get out of balance in cities

which are required to issue guaranteed bonds, they impose burdens on the general budget; and (2) that the expenditures in many enclaves are partly financed in any event by contributions from the general revenues.

Sound as these arguments are, it is significant that the most insistent demand for comprehensive budgeting has arisen where a deficiency of revenues in a district budget affects the bondholder only, and cannot impose a drain on the general revenues; and where contributions from general funds are never made towards purely local improvements, and only rarely for major improvements. In Los Angeles, where those conditions prevail, the city plan commission discovered that it was difficult to lay out logical benefit districts for essential major elements of the city plan, because certain localities within the proposed new districts were already so thoroughly buried under a scrambled series of overlapping districts for purely local improvements, that it would be dangerous to superimpose any new burdens on them. Frequently, these local improvements were not coordinated with any general plan, were not adapted to the character or to the primary needs of the neighborhoods, and had been initiated chiefly because contractors in need of jobs had circulated the original petitions.<sup>1</sup>

Notwithstanding these conditions, Mr. Cornick is of the opinion that all local improvements financed by special assessments should be planned in connection with the general budget. To do otherwise, he thinks, is to deprive the local government as a whole of an accurate and complete picture of its fiscal operations and economic resources, even though the physical and financial plans of the assessment districts were most carefully laid out with respect to the districts themselves. While he sees certain obstacles ahead, he does not believe them to be insurmountable. In fact, some progress has already been made toward this objective of comprehensive planning. In varying degrees, local initiative in special assessment districts has been superseded by central control in Seattle, in some cities of California, in Detroit, in New York City, and in the local governments of New Jersey. Marked progress has already been made in several cities toward the equitable spread of costs in proportion to benefits, both in purely local improvements and in major city plan projects. That unified and comprehensive budgeting for local improvements financed partly or entirely by special assessments will eventually come seems practically certain, especially in view of the rapid progress which has been made during the last ten years in long time financial planning.<sup>2</sup>

*Separate Governmental Units and Agencies Affecting the Budget.*  
—Within the boundaries of many local governments, particularly the counties and the larger cities, there are oftentimes numerous separate

<sup>1</sup> Philip H. Cornick, "Special Assessments," *Proceedings*, Annual Meeting of the Governmental Research Conference, 1927, pp. 106-107.

<sup>2</sup> See below, pp. 171-176.

or semi-independent units which have been established for political or other reasons. The authorities of many of these local units have the power to levy taxes and to spend the money derived from such taxes. In many instances this affects very seriously the general budget of the major local government. The situation is not unlike that of the special assessment enclaves to which we have referred above. Take, for example, Cuyahoga County, Ohio, wherein the city of Cleveland is situated. Within this county there are 102 taxing units, each spending, through an annual budget or otherwise, the taxes which it receives. It can easily be seen that these various taxing units, if permitted to do as they please in raising and spending money, can seriously embarrass both the city and the county governments. In other words, it seems necessary to establish some means of coördinating the financial requirements of these separate units. This has already been attempted in Ohio through the creation by general state law of a county budget commission, consisting of the county auditor, treasurer, and prosecuting attorney. The commission's authority extends only to equalizing and adjusting the budget estimates so as to keep the expenditures of each taxing unit within the tax limits fixed by law, and then to fixing the tax rate necessary to meet the budgets of the several local governments within the county. While this arrangement has not yet demonstrated that it will work out in an entirely satisfactory manner, the general idea of some method of coördinating the budgetary demands of overlapping and superimposed local units of government seems sound.

In some instances, certain functions of local governments are split off from the general structure and conducted through semi-independent agencies. This is frequently the case in the administration of schools and parks. If not administratively independent, they are often financially independent of the central local government. Their budgetary requirements are not reviewed or revised by the central authorities; hence, their financial needs are not weighed in comparison with those of the other important agencies of the local government. The result is that the cost of these semi-independent agencies is sometimes unduly high and out of proportion to their requirements when compared with those of other functions of equal if not greater significance. This, however, cannot be easily remedied without unified budget planning. If certain governmental agencies are to remain in a semi-independent position with respect to the central local administration, there should nevertheless be some supervision and coördination by the central authorities over their

budgeting. This seems to be the only satisfactory arrangement from the financial point of view. Any other arrangement tends to duplication of work, increased operating costs, and even extravagances in management on the part of the semi-independent agencies.

By the coördination of the financial requirements of independent local units of government within the same area, we do not mean that these requirements must all be set up and balanced in one super-budget. This is unnecessary even from the standpoint of the comprehensiveness of the budget. It may easily be overdone, as seems to be the case with respect to the inclusion of the financial requirements of the District of Columbia in the national budget. Here is a local unit of government—in reality a large city government—included in the national budget, and for no other apparent reason than that Congress has direct control over it. For all practical purposes, the District is treated as an administrative department of the national government. There seems to be no justification for this, at least, from the standpoint of the budget. While it seems to be generally agreed among those who have made a careful study of the situation that the budget of the District should be separate from that of the national government, there is a difference of opinion as to whether or not Congress should continue directly to scrutinize and to authorize the budget of the District. W. F. Willoughby, an authority on the national administration, asserts that the budget of the District should not only be distinct from the national budget but that authority should be vested in the District commissioners to prepare and adopt it.<sup>1</sup> On the other hand, Louis Brownlow, who was for several years a commissioner of the District, is of the opinion that while a separate budget for the District is desirable, it should be subject to congressional control. He believes that the District budget should be prepared by the local authorities, but that Congress should examine, revise, and authorize it.

*Subsidized Private Agencies.*—Finally, we should note briefly the effect upon the budget of subsidies to private agencies. In several states and cities it is the practice to subsidize privately owned and operated institutions and agencies, which are expected to provide certain services in return for the financial aid thus given. For example, the state of Maryland appropriates varying sums of money, ranging in amount from \$500 to \$75,000, to more than a hundred private institutions and agencies, the aggregate being more than a million dollars a year. The state of Pennsylvania likewise appropriates large amounts of money for similar purposes. The

<sup>1</sup> W. F. Willoughby, *The National Budget System*, 1927, pp. 246-248.



city of New Orleans appropriates from the municipal treasury to the maintenance of more than fifty private institutions and agencies. The bulk of such governmental aid, in the case of state and city governments, is contributed to educational and welfare institutions and agencies, although in certain states some of it goes to agencies for the promotion of agricultural interests.

Some authorities have questioned the wisdom of government aid to private agencies and have recommended that public funds be not used for such purposes. Certain states, for example, Massachusetts, have followed these recommendations by enacting legislation which forbids appropriations being made to private agencies under any condition. In those states and cities where aid to such agencies is permitted, it would seem to be justified only when much needed and satisfactory service is rendered in return for the money appropriated. Each private agency receiving government aid should be required to furnish a complete report on the services which it rendered through the use of the public funds and the essential facts of this report should appear in the budget in support of its request for continued aid.

**The Form and Contents of the Budget Document.**—We now come to a discussion of the budget document and the form that it should take in presenting the financial plan of the government. Should each governmental unit have a single budget document? If we turn to England, we find that the budget, as formulated, consists not of one but of several documents—a financial plan presented, as it were, in ensemble. There are (1) the detailed expenditure estimates presented to Parliament before the opening of the fiscal year to which the budget applies; (2) the financial statement, or budget summary, presented to Parliament by the Chancellor of the Exchequer at the “opening” of the budget, which is some time during the first month of the fiscal year; (3) the “budget speech” made by the Chancellor at the time the financial statement is presented; and (4) the budget bills—appropriation and revenue measures—which are drafted several weeks later for the action of the House of Commons. In contrast with the English practice, we seem, however, definitely to have adopted the idea of having a single budget document. Many of our budgetary laws make provision for such a document; furthermore, the trend of our experience is decidedly in that direction.

Assuming that we are to have a single budget document, how should it be set up and what should it contain? This question is not very easily answered either from the standpoint of legal pro-



visions or of experience. American practice in this regard is still largely in the process of taking definite shape. It is controlled by a wide variety of legal provisions, some of which are quite general while others are very detailed. Usually the detailed provisions place considerable emphasis upon the presentation in the budget document of certain accounting and statistical information, such as balance sheets and comparative data of one kind or another. If these provisions are followed literally, the result is likely to be a very dull budget document from the standpoint of the members of the legislative body and the citizens. In fact, the document may be stripped of all human interest except for the technician who is able to read into dry figures the meaning that gives them life—that makes them significant in connection with the work of government.

*Legal Provisions Relative to the Budget Document.*—Let us note briefly a few of the legal provisions with reference to the form and contents of the budget document. The national budget and accounting act, adopted in 1921, stipulates that the budget document must show the following: the estimates of expenditures for running the government for the ensuing fiscal year, the estimates of Congress and of the Supreme Court being included without revision; the estimates of receipts for the ensuing fiscal year under the existing laws and under the revenue proposals, if any, made by the President; the expenditures and receipts during the last completed fiscal year; the estimated expenditures and receipts during the fiscal year in progress; the amount of appropriations available for expenditure as of November 1 of the fiscal year in progress; balanced statements of the condition of the treasury at the end of the last completed fiscal year, the estimated condition at the end of the fiscal year in progress, and the estimated condition at the end of the ensuing fiscal year if the budget proposals are adopted; all essential facts regarding the bonded and other indebtedness of the government; and such other financial statements and data as are necessary or seem desirable to understand the financial condition of the government. If the estimated receipts of the ensuing fiscal year are not sufficient to meet the expenditure proposals of the budget, the President must recommend new taxes, loans, or other means to meet the deficiency. On the other hand, if the estimated receipts are greater than the proposed expenditures, he must make such recommendations as in his opinion the public interests require.

Among the states, the provisions of Maryland, Virginia, and North Carolina are typical examples of the legal requirements with respect to the budget document. The form of the Maryland budget

document is prescribed at considerable length in the constitutional amendment adopted in 1916. Two budgets, each covering a period of one year, must be prepared for the biennium and each of these must be divided into two parts. One part is called "governmental appropriations," and includes estimates of appropriations for the legislature, the executive, the judiciary, to pay the interest and principal due on the state debt, to pay the salaries prescribed in the constitution and general laws, to maintain the public schools, and for other purposes set forth in the constitution. The other part is designated "general appropriations," and includes all other estimates. Furthermore, the budget document must contain a complete plan of proposed expenditures and estimated revenues and must show the estimated surplus or deficit of revenues at the end of each year covered by the budget. In addition, the budget document must carry statements showing the expenditures and revenues for the current and the preceding years, the debts and funds of the state, and finally a balance sheet. A few states, notably West Virginia, have adopted almost identical provisions.

The Virginia budget law, enacted in 1918, requires that the budget document must contain a complete and itemized plan of all proposed expenditures for each state agency, classified by function, character and object, also the estimated revenues and borrowings for each year of the ensuing biennial period. Alongside each item of proposed expenditures the document must show in parallel columns the amounts appropriated for each of the last two preceding appropriation years, and the increases or decreases in each case. The budget document must be accompanied by a statement of revenues and expenditures for each of the two preceding appropriation years, a current balance sheet, a debt and fund statement, a statement of conditions of the treasury at the beginning and end of the two appropriation years covered by the budget, a balance sheet for the state at the close of the last preceding fiscal year,<sup>1</sup> a general survey of the state's financial and natural resources, with a review of its general economic, industrial and commercial conditions. Several states have practically copied the Virginia provisions.

The North Carolina budget law of 1925 stipulates that the budget document must contain a complete and itemized plan of all proposed expenditures of the government and of the estimated revenues and borrowings for each year of the ensuing biennium. The ex-

<sup>1</sup> The appropriation year in this state is not the same as the fiscal year, the former beginning on March 1 and the latter on July 1.

penditures must be shown in parallel columns for the two years immediately preceding the budget period with the increases and decreases indicated. The budget must clearly differentiate between proposed general fund expenditures for operating purposes and for capital outlays. Accompanying the document must be a message, prepared by the governor, outlining the financial policy and program for the budget period and supporting his recommendations; an itemized and complete financial statement at the close of the last preceding fiscal year; a statement of special funds; and a statement showing the condition of the state treasury at the beginning and the end of each of the years covered by the budget.

Provisions similar to those of the states just cited are to be found in a number of city charters and general state laws relating to budgeting in local governments. These provisions sometimes permit budget documents to be set up which are little more than general appropriation bills.

On the whole, the legal provisions are not very specific as to the form of the budget document. They would permit this document to be set up in numerous ways, none of which may be satisfactory. It is one thing to specify certain financial data which are to appear in the budget document, but it is another thing to arrange these data in orderly form. The latter is just as important as the former. In the few instances where the form of the budget document has been outlined in the law, it has not been entirely practicable to follow the provisions. Take, for example, the provisions of the Maryland budget amendment, noted above, which require that separate budgets be prepared for each year of the biennium and that each of these be divided into two parts, designated as "governmental appropriations" and "general appropriations." The intention of the separate budgets was evidently to make each fiscal year stand on its own bottom financially. This might easily have been accomplished through a single budget document by merely separating the financial requirements for each year. In actual practice this is what was done. The other provision, however, was not so easily met. The "governmental appropriations" apparently referred to those expenditures which might be termed obligatory, while the "general appropriations" included those expenditures which were more or less optional. A division of the budget on such a basis meant cutting across several organization units, thus splitting their requirements for current purposes between the two parts. As a practical arrangement this was regarded as unsatisfactory, so an arbitrary division of the budget was made along organizational lines. This illustrates

how detailed legal provisions, if followed to the letter, may sometimes hinder rather than aid in the preparation of a simple and understandable budget document.

*Existing Practices Relative to Form of the Budget Document.*—If we turn to budgetary practice to see what it has developed relative to the form and contents of the budget document, we find there are almost as many types of this document as there are governmental units operating under the budget system. Budget documents appear in all sizes from regular octavo size to large atlas size; usually they are printed, but sometimes they are reproduced by mimeograph or a similar process. Now and then a state or municipality does not publish its budgetary data in any form; no effort is made to compile the estimates for public information. Practically every published budget is lacking in some of its essential parts, or the information which it contains is poorly arranged. Sometimes the budget contains only expenditure data without even a brief statement of governmental income. For example, New York City publishes annually a large volume of over five hundred pages, known as the budget, which presents only the detailed expenditure estimates and proposed appropriations without summaries or totals. By no stretch of the imagination can such a document be called a budget, however well it may present the expenditures of the government. In several cities the budget is nothing more than a segregated appropriation ordinance, which is printed previous to its passage by the council. Sometimes the budget presents only a short statement of anticipated revenues and a brief summary of proposed expenditures, the detailed estimates and supporting information not being printed. Some states and cities follow this practice. However, the budget documents of the national government and of a few state and local governments are now presented in fairly complete form. They show both the proposed expenditures and the anticipated income of the government, balancing the one with the other in a summary statement which is supported by certain detailed data. This latter type of budget document is what we propose to discuss in the subsequent pages of this chapter.

*Suggested Form of the Budget Document.*—Anything like a standard form of budget document is still undeveloped in the United States. Furthermore, so far as we have gone in that direction, the existing legal provisions have not greatly assisted us. The technique of correctly presenting the financial plan and supporting information in the budget document must, after all, come from



practice rather than from legal requirements. Our budgetary experience up to this time indicates quite clearly that the form of the budget document should be such as to set forth a general picture of the government's financial requirements, which in turn should be explained by detailed estimates and comparative information. Furthermore, it appears that the financial plan—all proposed expenditures and means of financing them—can and should be presented in summary and balanced form, preferably on a single-page statement placed at or near the front of the budget document. The remainder of the document can then be visualized as consisting of supporting schedules, explanatory statements, and detailed information relative to this statement. Budget laws generally fail to make any provisions for such a summary and balanced statement, and therefore overlook the most essential feature of the budget document.

Upon the basis of American experience and with a view to practical ends, we are of the opinion that the budget document should be set up in three parts, the nature and contents of which are as follows:

Part I should show the financial plan as a summary and balanced statement, explained by a budget message and supported by a few schedules and charts. This part, covering only a few pages in the front of the budget document, would enable the citizens and taxpayers to get a bird's-eye view of what the government proposed to do, how much it expected to spend, and where it intended to get the money. For general public information, this part of the budget document might be printed separately at much less cost than the entire document, thus giving the budget a much wider circulation. This practice is followed in publishing the national budget.

Part II should present the detailed financial plan and all the information upon which the first part is based, such as the expenditure and revenue estimates, comparative expenditure figures, cost data where available and pertinent, and statements of the financial condition and operations of the government. In other words, the second part of the budget document would exhibit to members of the legislative body and the public all the detailed facts necessary to support the general summary of the financial plan contained in Part I. It would be by far the largest part of the budget document, varying in size more or less in direct proportion to the volume of expenditures made by the government.

Part III should contain the appropriation, revenue, and borrowing measures which are legally required to carry the financial plan



into operation. While the inclusion of these measures in the budget document is not widely sanctioned by present usage, it is nevertheless quite desirable. Wherever the budget law requires such measures to accompany the budget, they ought to be included as a final part of the budget document. This is the recent practice in North Carolina where the budget contains the bills designed to carry out the governor's recommendations. Of course, these bills may also be printed separately in sufficient quantity for the consideration and action of the legislative body.

The discussion in the remainder of this chapter will be limited to Parts I and II of the budget document as outlined above. Part III, covering the appropriation and other measures, sometimes referred to as the budget bills, will be treated in the next chapter. In taking up Part I of the budget document, we shall discuss its essential features in the following order: (1) the budget message, (2) the general budget summary, and (3) the supporting schedules.

**The Budget Message.**—When properly prepared, the budget message is the means of vitalizing the financial plan. It is analogous in some ways to the "budget speech" of the English Chancellor of the Exchequer.<sup>1</sup> It enables the budget maker to present his financial proposals in understandable terms to laymen whether they be members of the legislative body or taxpayers. It is the means of breaking away from the technical vocabulary of the accountant and the statistician—from such terms as "assets and liabilities," "operation accounts," "fund statements," "averages," and "ratios,"—and of stating the budget plan in the everyday language of the people. When so stated, this plan becomes news and the papers will rarely fail to give it first-page space.

The budget is, after all, much more than an orderly arrangement of figures on the basis of existing accounting and statistical methods. It mirrors, in a way, the economic conditions and the social problems of the community, the state, or the nation, as the case may be, at the time it is formulated. As Gladstone, the master budgeteer of England, is imputed to have said: "Budgets are not merely affairs of arithmetic, but in a thousand ways go to the root of the prosperity of individuals, the relations of classes, and the strength of kingdoms." Such fundamental aspects of the budget cannot be set forth in tables of figures, no matter how arranged; they must be brought out, if at all, through the medium of the budget message.

What should the budget message contain? It is difficult to outline the things which should be presented in this message except

<sup>1</sup> See below, p. 381.

in the most general way. The contents and the manner of presenting such a message will depend upon the size, jurisdiction and general conditions of the government to which the budget relates. Obviously the budget message of a local government would not require the same kind of treatment as that of a state government; furthermore, the changing conditions of a particular government would demand that the emphasis of the message be shifted from year to year. However, in general, the following points ought to be discussed in the budget message.

1. The financial condition of the government—whether one of surplus or of deficit—should be set forth as of the beginning of the budget period. This requires a brief review of the current operations of the government; perhaps an enumeration of the outstanding revenue and expenditure problems of the current period. The major budget proposals of the current year should be discussed briefly, showing to what extent they have been carried into effect. In this way, the proposed budget is approached in the light of the experience of the period immediately preceding it.

2. The financial policy as outlined in the proposed budget should then be discussed. This involves the relation of anticipated income to estimated expenditures for the budget period as presented on the general budget summary. Particular attention should be given to the means of financing the budget, emphasizing any changes in the general tax rate or amendments to existing revenue laws. Proposed new sources of revenue or any general problems of taxation affecting the government should also be discussed. A statement of the wealth and taxable property under the jurisdiction of the government, as well as the conditions of business, industry and commerce, may also be included in this connection. The expenditure side of the proposed budget should be taken up at this point and discussed as a whole, special emphasis being placed on any unusual or extraordinary outlays. In this way, the general features of the proposed budget would be presented.

3. Having disposed of the general features of the proposed budget, the detailed expenditures for operation and maintenance may next be considered. These should be discussed under the headings of the various departments, institutions, or agencies to which they refer. Any proposals for economy or for a shift in expenditure emphasis relative to the work of any organization unit should be brought out in this part of the message. This may lead to a discussion of departmental or institutional reorganization, salary standardization, centralized purchasing, cost accounting, etc. The social

phases of the government's work ought not to be neglected at this point.

4. Expenditures for capital purposes, such as buildings, improvements, and land, may next be considered. All important construction projects should be explained. If the government has previously adopted a long time financial program for the orderly development of improvements or activities, the message should show just how such program is being realized each year through the budget. The extent to which the cost of improvements is being met out of current revenues, bonds, or special assessments should be noted. Questions relating to institutional plant development or the housing of governmental agencies would be dealt with at this point.

5. The government's indebtedness ought to be discussed at least briefly in the budget message. This should cover the condition of the sinking funds, if any, the redemption requirements of the budget period, and the effect on the existing debt of any proposals for new bond issues.

Budget messages do not, as yet, appear in very many of the budget documents produced in this country. One of the best examples of such a message is to be found in the national budget. Since the establishment of the federal budget system in 1921, it has been customary (although not legally required) for the President to explain his financial proposals in a short message which is printed in the front of the budget document. When the budget goes to Congress early in December of each year, this message is printed in whole or in part by all the leading newspapers of the country and widely commented on in the editorial columns of papers, journals, and magazines. It is almost entirely through the budget message that the people of the United States get an impression of the President's budget plan, since comparatively few ever see the printed budget document. This fact alone lends great weight and significance to the budget message of the President.

Among the states, the most notable examples of budget messages at the present time are those of the governors of New York, California, Massachusetts, North Carolina, New Jersey, Pennsylvania, Virginia, and the Territory of Hawaii. Perhaps three-fourths of the state budgets do not contain any kind of a message by the budget-making authority. Usually there are letters of transmittal, but these do not explain the budgetary proposals and hence are in no sense messages. In each of those states where a message is published in the budget document, it is generally commented on by the press of the state. This helps greatly to make news out of the

budget and to acquaint the people with the financial requirements of their state government.

Local budget-making authorities have not yet made much use of the budget message. Only a few city managers or mayors have attempted to present their budgetary recommendations to members of the council and to citizens through the medium of a message. It is argued that the local budget message is largely gratuitous since the budget maker may, in the case of manager governments and in several other instances, appear before the council to explain in person his budgetary proposals. While this is true, such procedure does not fully satisfy the need. If the message accompanies the budget when submitted to the legislative body, the local papers will take more notice of the financial plan and it will consequently receive greater attention from the public, which is highly desirable from the standpoint of an effective budget system. Undoubtedly, the budget makers of local governments are beginning to realize the importance of the budget message. Notable examples of such messages are to be found in the 1929 budgets of Berkeley, Calif., Durham, N. C., Lynchburg, Va., and Rochester, N. Y., all of which were prepared by city managers, and also in the 1929 budgets of Boston, Mass., and Toledo, O., which were prepared under the direction of mayors.

**The General Budget Summary.**—The second essential feature of the budget document is the summary statement setting forth a general picture of the financial plan. This statement should be brief enough to be printed on a single page; yet, it should comprehend all the financial requirements of the government for the budget period. It should be set up in such manner as to exhibit a balanced relation between the proposed expenditures and the anticipated income of the government. This does not mean, however, that it should be similar in form to a balance sheet. In fact, if it is to be compared to any regular accounting form, it should be more in the nature of an operating statement of the government projected over the period covered by the budget. However, it should not contain accounting terminology which is wholly unfamiliar to laymen, and it should not be set up in such form that citizens and taxpayers cannot with reasonable effort comprehend it. This one fact should always be kept in mind: the general budget summary is for the information of the legislative body and the public, not the technicians.

*Existing Practices Relative to Budget Summaries.*—In practice nearly all our budget documents—national, state and local—con-



tain summary statements or tables of one kind or another. American budget makers seem generally to recognize the necessity for summarizing the financial plan, but they do not as yet follow any uniform scheme in doing so. They often fail to show in a single statement the total governmental expenditures in relation to the total means of financing, and they frequently do not present the financial condition—surplus, deficit, or exact balance—which it is estimated will exist at the end of the budget period. They, therefore, fall far short of setting up a real budget summary.

Let us turn to the English budget and see what it contains in the way of a balanced summary statement. As we have already pointed out, this budget consists of several documents; however, one of these—the financial statement—contains a complete summary of the budget for the forthcoming fiscal year.<sup>1</sup> This summary taken from the budget for 1928-29 is herewith reproduced as Figure 1. It is contained on a single page, 6 by 9½ inches. It is divided into two parts: first, the “ordinary revenue and expenditure” and, second, the “self-balancing revenue and expenditure.” The first part contains the general budget of the government; the second part, the financial requirements of the major public undertakings. The estimated income of the general budget is shown on the left-hand side and the estimated expenditures on the right-hand side of the first part. These are balanced. The revenue is shown according to the main sources; the expenditures are divided as between the consolidated fund services (permanent appropriations) and the supply services (annual appropriations). The sinking fund provisions are shown separately on the expenditure side. The second part is a new departure, this being the first time that it has been shown separate from the general budget. Prior to the 1928-29 budget, the requirements of the Post Office and the Road Fund were shown in gross amounts in the general budget. But in this budget only the net result of operation is shown in the general budget, which in both cases is a surplus, the Post Office surplus amounting to £8,186,000. In explaining this change, the Chancellor of the Exchequer, Winston Churchill, said in his budget speech before the House of Commons on April 24, 1928:

According to the doctrines of Sir Robert Peel and Mr. Gladstone, the

<sup>1</sup> Practically all of the countries of continental Europe also present their budgets through such summary statements. These statements, of course, vary from one country to another, but in general they lay great emphasis on the revenue side and show the resulting surplus or deficit at the end of the budget period. This applies to the local, as well as the national, budgets of these countries. See, for example, Charles Sol, *Le Budget Municipal*, 1925, pp. 40-102.



presentation of gross estimates was to be encouraged, and respectable reasons can be found for it. But as the consequent meaningless inflation of the total figure has proved a stumbling block to a numerous tribe of political quadrupeds, I have thought it desirable on this occasion and for the future to make a change. . . . It is a matter of common agreement between the financial authorities of all parties, I think, that the growth in the self-balancing expenditure of the Post Office and the Road Fund grants ought not to appear in our accounts on precisely the same footing as an increase in ordinary burdensome expenditure. . . . The changes which I propose are of the simplest character. In the statement of ordinary revenue and expenditure I leave only the surplus of the Post Office and the excess of the Motor Vehicle Duties over the Road Fund grants. The Post Office expenditure and the Road Fund grants are shown quite separately as self-balancing items. The amount of the Sinking Fund provision will also be kept outside the total expenditure and shown in its proper place, namely, beside the prospective surplus of the year.

In the absence of specific legal requirements, it is interesting to note what types of budget summaries have evolved through practice in the United States. The national budget document shows a balanced statement of ordinary expenditures and receipts for the fiscal year covered by the budget and for each of three preceding fiscal years. The figures for each year are shown in parallel columns and the condition of the treasury at the end of each year is set forth at the bottom of the statement. The expenditures are classified by organization units, that is, by departments and agencies of the government, and the receipts by sources of revenue. By setting down a list of the various organization units, the length of the statement is increased until it covers three pages. Supporting schedules are indicated by page number on the summary statement. This statement is by no means as effective in presenting the financial plan as the English budget summary.

Among the state governments, the budget document of Massachusetts contains a balanced statement similar to that of the national budget. Comparisons are made in the case of receipts with the year preceding the budget year. Receipts are classified mainly by collecting agencies rather than by sources of revenue; expenditures are shown by organization units. The statement is fairly compact, being set up on two facing pages.

The North Carolina state budget for 1927-1929 presents a concise summary statement, which is herewith reproduced as Figure 2. This statement sets up for the general fund the money available to finance the proposed expenditures from this fund according to certain major groups, striking a balance at the end. Only the biennium covered by the budget is shown; there are no comparative

data from previous years. Such data are shown, if at all, in supporting statements or schedules. While the groups or subheads under both income and expenditures are not the most satisfactory that might be devised for a statement of this kind, they, at least, are not misleading. A better classification from the standpoint of bud-

### BUDGET STATEMENT NO. 1

A SUMMARY OF THE BUDGET FOR THE FISCAL YEARS ENDING  
JUNE 30, 1928 AND 1929

	The Biennium 1927-29	
	1927-28	1928-29
<b>ESTIMATED AVAILABILITY:</b>		
The Credit Balance estimated at June 30, 1927 is allocated to each year of the ensuing Biennium.....	\$ 700,000	\$ 593,138
The Budget Revenue Bill is expected to yield as follows:		
Schedule A—Inheritance.....	\$ 1,000,000	\$ 1,400,000
B—Business Licenses.....	1,850,000	1,910,000
C—Franchise.....	3,498,000	2,548,000
D—Income.....	6,250,000	6,250,000
The Miscellaneous Revenues—Earnings and Fees of Departments, Interest on Bank Balances, Dividends—are estimated.....	1,410,345	1,453,345
Total Available.....	\$ 14,708,345	\$ 15,154,483
<b>PROPOSED OBLIGATIONS:</b>		
General Assembly.....	\$.....	\$ 166,754
Judiciary.....	383,500	383,500
Executive Departments.....	153,750	156,250
Administrative (includes State Aid thru Departments).....	4,470,900	4,469,600
Public Printing.....	2,860	2,860
Miscellaneous.....	65,300	45,300
Contingency and Emergency.....	200,000	200,000
Educational Institutions.....	2,415,500	2,559,000
Charitable and Correctional Institutions.....	2,296,500	2,352,000
Pensions.....	1,203,300	1,203,300
Total other than Debt Service.....	\$ 11,191,610	\$ 11,538,564
Debt Service.....	3,494,495	3,585,495
Total Proposed Obligations.....	\$ 14,686,105	\$ 15,124,059
Unappropriated—Availability estimated exceeds Proposed Obligations..	\$ 22,240	\$ 30,424
or an Estimated Credit Balance at the end of the Biennium of.....	\$.....	\$ 52,664

FIGURE 2. Budget Summary Reproduced from the North Carolina State Budget for 1927-29.

get planning is discussed below.<sup>1</sup> On the whole, the North Carolina summary budget statement represents a very good attempt to set forth (for the general fund) the financial plan of a state govern-

<sup>1</sup> See below, Figure 5 and discuss in connection with it, pp. 67-71.



ment on a single page.<sup>1</sup> The budgets of California and Maryland contain summaries of a somewhat similar character, which comprehend all state funds.

The budget documents of city and county governments are summarized in much the same way as those of state governments. Not many of these documents are worthy of imitation in this respect. The 1928 budget of Rochester, New York, however, contains a very good summary, which is herewith reproduced as Figure 3. It sets up the expenditures according to two major groups and divides the means of financing into four groups. Further subdivision might be made to advantage, as indicated below on Figure 5. Both expenditures and means of financing are distributed according to funds. Where the government has only a few funds, this distribution can be made on the general budget summary. However, in most cases, it is much better to show the distribution by funds on a supporting schedule to the general summary. No comparative data relating to the expenditures or the revenues of the city government for previous periods are presented on the summary statement; these are set forth on supporting schedules. Several other city budgets contain summaries presented in somewhat different form.

Among the budgets of county governments, which are all too rare at the present time, the 1929 budget document of Hennepin County, Minnesota, is notable for its general summary.<sup>2</sup> This summary is herewith reproduced as Figure 4. It sets forth the essential facts about the county's financial plan, showing both expenditures and income and balancing the one with the other for the budget year. It gives comparative figures for the two preceding years, indicating in the case of expenditures the increases or decreases of the budget proposals over these figures. The columns showing the increases or decreases are of doubtful value, particularly on the budget summary, as we shall explain later. The income is shown by setting down the estimated amounts from the various sources of miscellaneous revenues, which, when totaled and deducted from the proposed expenditures, gives the amount required from the general property tax to balance the budget. A certain percentage of this amount, which has been shown by previous experience to be

<sup>1</sup> It is defective, however, in that it does not comprehend the transactions of all the state funds.

<sup>2</sup> This budget document was prepared under the direction of F. R. Chailquist, chief accountant of the Hennepin County auditor's department, Minneapolis, Minnesota. The document is mimeographed instead of being printed.



uncollectible, is added to it, thus giving the total to be levied on the general property.

*Suggested Forms for General Budget Summary.*—From the foregoing discussion, it is apparent that some standard forms for a general budget summary may be easily designed for use by the various governmental units in the United States. It is also evident that these forms ought to vary somewhat as to their contents, owing to the diversity of functions and the complexity of operations in the different governments. With this in mind, we have designed three forms, any one of which may be used to present the general budget summary. Each of these forms will now be illustrated and described at some length.

The first form, designated as the "general budget summary in its simplest form," is shown in Figure 5. This form presents only the most essential features of the general budget summary. It is clearly divided into two parts, presenting the two sides of the budget—the expenditure side and income side. The expenditure side is set forth under four headings, according to the general character of governmental payments.<sup>1</sup> These headings have certain advantages over other groupings in presenting the expenditure side of the budget on the general summary. They not only indicate the general nature of the expenditures by segregating the expenses of administration and operation from the other costs of government, but they serve as a kind of index to the method of financing the budget. For example, under normal conditions, borrowings should be used to finance only the third group, namely, the acquisition of properties; the other groups of expenditures should be met out of current revenues. In some of the budget summaries noted above, the expenditures are shown by functional groups or even by organization units. This arrangement sometimes makes a rather long statement out of the summary and, besides, it does not separate expenditures for current expenses and obligations from those for the acquisition of properties or for the payment of debts. In other words, it seems preferable to indicate the general character of the expenditures on the budget summary rather than to show the organization units or groups of units making the expenditures, since the former classification is indicative of the method to be used in financing the budget while the latter is not.

The income side is divided into three general groups, according to the sources from which the receipts come. To the total income

<sup>1</sup> The character grouping of expenditures is fully explained in the subsequent chapter on classification. See below, pp. 209-211.

SUMMARY OF BUDGET REQUEST FOR YEAR 1929  
As reduced and fixed by resolution of County Board, July 30, 1928

	Sch. No	Expended 1927	Budget for 1928	Request for 1929	Increase or Decrease over 1927 Expend.	Increase or Decrease over 1928 Budget
<b>EXPENDITURES</b>						
Operation expenses:						
Personal services	1	\$ 937,987	\$ 976,819	\$ 977,029	\$ 39,042	\$ 210
Contractual services	1	67,534	79,227	79,598	12,054	371
Supplies	1	108,969	101,741	102,379	-6,599	620
Fixed charges and contributions	1	619,590	699,652	740,317	120,727	41,265
Special and contingent	1	1,321	2,000	2,640	1,319	40
Total operation expenses		1,735,401	1,859,439	1,901,954	166,553	42,515
Maintenance—other than road and bridge and automobile	1	21,812	15,791	17,220	-4,592	1,420
Automobile expense—operation and repairs	1	19,094	19,703	18,404	1,690	-1,299
Road and bridge	1	581,056	430,700	473,000	-106,656	44,240
Lake improvement	1	17,805	18,000	18,000	195	
Debt payment	1	579,408	629,923	550,221	-29,187	-79,702
Emergency fund	1		5,000	5,000	5,000	
Capital outlay	1	36,068	27,112	38,100	2,032	10,988
Total expenditures		\$2,991,244	\$3,005,728	\$3,023,899	\$ 32,655	\$ 18,171
<b>INCOME</b>						
Taxes—other than current real estate and personal	2	229,418	230,613	220,300		
Rights and privileges	2	2,268	2,409	2,380		
Fees, services and sales	2	237,408	234,713	232,070		
Interest	2	31,029	31,578	41,500		
Fines and forfeitures	2	30,646	32,405	28,000		
Subventions, grants, reimbursements and refundments	2	35,813	2,298	1,030		
Balance from previous year (suspense fund)	3	77,076	88,009	34,900		
Totals		655,658	622,085	556,200		
Current real estate and personal property tax required to meet above budget request making allowance for amount of taxes which will not be collected and be available for current purposes				2,543,304		
Total				3,103,504		
In 1926 and 1927 3.13 per cent of levy was not collected in current year—making a like allowance of 3.13 per cent on above levy of \$2,543,304, we have (which deducted balances the budget)				79,605		
				\$3,023,899		

Note

On an assessed valuation of \$351,099, 336.00, real estate and personal property, it will require a rate of 7.243 mills to raise a levy of \$2,543,304. The 1928 rate is 7.40 mills and the amount raised by levy on real estate and personal property is \$2,530,535.

FIGURE 4. Budget Summary Reproduced from the 1929 Budget of Hennepin County, Minnesota.



for the budget period is added the surplus at the beginning of that period; this gives the total means of financing the expenditures proposed in the budget. By deducting the expenditures, the surplus at the end of the budget period is shown at the bottom of the summary. In this way the budget is exhibited as a balanced plan. If the government should have a deficit at the beginning of the budget period, it may be added to the total expenditures shown in the first part of the summary, or it may be deducted from the total income

## GENERAL BUDGET SUMMARY

For the Fiscal Year Beginning....., 19...

	Supporting Schedule Nos.	Budget Proposals
<i>Expenditures</i>		
Current expenses . . . . .	1, 3	
Current obligations (fixed charges) . . . . .	1, 3	
Acquisition of properties . . . . .	1, 3	
Debt payments . . . . .	5, 6, 8	
Total expenditures . . . . .		
<i>Income</i>		
Revenues . . . . .	2, 4	
Borrowings . . . . .	4, 7, 8	
Sales of properties . . . . .	4	
Total income . . . . .		
Surplus at beginning of fiscal year . . . . .	4	
Total means of financing . . . . .		
Less total expenditures . . . . .		
Surplus (or deficit) at end of fiscal year . . . . .		

FIGURE 5. General Budget Summary in Its Simplest Form.

for the budget period. Perhaps the former method of showing the deficit is better. Some state and city budget-making authorities do not yet seem to see the necessity for taking into consideration the surplus or deficit at the beginning of the budget period in setting up the income side of the budget. They insist on starting each budget period with a clean slate no matter what the financial condition of the government may be at that time. Their budget summaries are prepared as if the government were newly organized and beginning its business for the first time at the opening of the budget period. This, of course, does not represent the actual situation.

The financial condition of state and local governments at the beginning of the budget period should undoubtedly be taken into account; otherwise, there can be no definite assurance that their budgets are properly balanced. Fortunately, this is already the general practice in such governments. The national government, however, does not adhere to this practice. Since the budget system was established in 1921, the surplus at the beginning of the fiscal year has not been included as a means of financing the budget, but it has been applied mainly to the redemption of the national debt. For example, the surplus for the fiscal year 1927 was \$635,809,921, according to the Treasury statement of June 30, 1927. Of this sum, \$612,000,000 was applied to debt retirement. Under the operation of the budget system, the national government has so far been fortunate enough to close each fiscal year with a surplus, which has been quite large in some years. If the reverse condition should be true in the future (and it is not at all unlikely), then it would be necessary to take some account of it in the budget.

If budgetary estimating could be reduced to an exact science, there would be neither surplus nor deficit at the end of the fiscal period. In the nature of things, such great accuracy is rarely, if ever, possible. The expenditure plan can be more or less rigidly adhered to, but a number of things may conspire to upset the estimates with reference to revenue collections. In many local governments, where the chief source of revenue is the general property tax, the amount to be levied in order to balance the budget constitutes the maximum sum which can possibly be collected from that source. On the other hand, the fact that errors arising from irregular or duplicate assessments may have crept into the tax rolls upon which the levy is based, or that reductions in individual assessments may be granted subsequently on appeal by individual owners to superior administrative authorities or to the courts, will tend to reduce the actual collections below the amounts estimated for the purpose of making the levy. If, therefore, the expenditure and the income sides of the budget are exactly in balance, this reduction in collections below the estimates may result in a deficit at the end of the period. In order to provide for this contingency, the budget is sometimes drawn so as to show an estimated surplus at the end of the period. In the absence of better methods, this plan of showing an estimated surplus, instead of an exactly balanced budget, is justifiable. On the other hand, there can never be any justification under normal conditions for an unbalanced budget showing a deficit.

This budget summary (Figure 5) is designed to cover a definite

period, namely, the fiscal year. This is the budgeting period for the national government, all local governments, and a few of the state governments. Where the budget extends over a biennium, as in several of the states, the budget proposals should be shown in two columns, one for each year of the biennium. This seems to be advisable, even though the appropriations are made for the entire biennium rather than for each of the fiscal years.

A column is provided on this budget summary in which the numbers of the supporting schedules are indicated. These numbers are an aid to quick reference.<sup>1</sup> Comparative figures covering each of the two years immediately preceding the budget period are omitted, but these figures may be shown on the form by adding additional columns.<sup>2</sup> It should be understood, however, that the amounts of the same item in different years may not be comparable owing to the character of the expenditures, to a change in financial policy, or to extraordinary conditions. For this reason, comparative data may be presented to better advantage on the supporting schedules to the general budget summary. Greater detail can be shown on these schedules and explanations can be added whenever necessary.

No attempt is made on this budget summary form to show the funds into which the income goes and from which the expenditures are met. In a government, having only three or four funds, it is possible to add columns on the right-hand side of the summary form to show the distribution by funds. This has been done on the Rochester budget summary reproduced above.<sup>3</sup> However, it is usually a better plan to present the distribution by funds of both income and expenditures on supporting schedules. Information of too great variety cannot be shown effectively on the summary form. While it is necessary to know the fund restrictions in order to make appropriations, it does not seem advisable to try to set these up on the general budget summary. They are, after all, of secondary importance in the financing of the government. This is evidenced by the fact that some governments have practically eliminated all special funds, their financial transactions being conducted almost entirely through a single fund—the so-called general fund.

The second form of general budget summary, shown in Figure 6, is designed for those governments which wish to separate the

<sup>1</sup> In this case, they refer to the supporting schedules which will be found in a subsequent section of this chapter.

<sup>2</sup> A general budget summary, providing space for comparative figures for two years prior to the budget year, is easily designed. See *Municipal Finance* by A. E. Buck and others, 1926, p. 37.

<sup>3</sup> See above, Figure 3, p. 66.

"operating budget" from the "improvement budget." While these separate parts of the general budget are commonly referred to as the "current budget" and the "capital budget," we have chosen the former terms as more nearly representing what we have in mind. The operating budget shows on the expenditure side the expenses of running the government, including current obligations, minor properties, and debt redemption; on the income side, it sets up the revenues and the surplus which are anticipated to meet these expenditures. The improvement budget presents on the expenditure side the cost of the major properties which are acquired and the investments made in public enterprises, while on the income side it enumerates the revenues, special assessments, borrowings, receipts from the sales of capital assets, and surpluses in funds which are available to finance the expenditures. Revenues are shown as a means of financing the improvement budget, since many governments pay all, or a part, of the cost of their improvements out of current income. Special assessments are shown separately from other revenues because of the fact that they are an important means of meeting improvement costs in many local governments. Such assessments are sometimes used for current purposes, in which case they would be included under revenues in the operating budget. Borrowings are only included as a means of financing the improvement budget, it being assumed that bonds are not normally issued to meet current expenses. However, in the event they are issued to meet such expenses or to refund outstanding bonds, they should be shown as borrowings under the operating budget. The charges for the redemption of all bonds, no matter for what purpose they are issued, are shown under the expenditure side of the operating budget. This merely indicates that the retirement of all indebtedness, as well as the interest thereon, is usually a charge against current revenues.<sup>1</sup> Proceeds from the sales of capital assets are included as a means of financing the improvement budget; however, if there are bonds outstanding against the properties sold, they should be retired out of the proceeds, and the remainder, if any, used for the acquisition of more properties.

Some have suggested separating from the operating budget only those improvements which are financed by the issuance of bonds, but this does not appear to be a practicable method from the standpoint of the budget as a whole. If a division is to be made in the

<sup>1</sup> Special assessment bonds are often an exception. In many cases, they are not a charge against any current revenues other than special assessments, when, as and if collected.



GENERAL BUDGET SUMMARY

For the Fiscal Year Beginning . . . . ., 19...

Expenditures	Supporting Schedule Nos.	Budget Proposals	Income	Supporting Schedule Nos.	Budget Proposals
<b>1. <i>Operating Budget</i></b>			<b>1. <i>Operating Budget</i></b>		
Current expenses . . . . .			Revenues . . . . .		
Current obligations . . . . .			Surplus at beginning of fiscal year . . . . .		
Properties (minor equipment) Redemption of debt . . . .			Total means of financing . Less total expenditures . .		
Total expenditures . . . .			Surplus (or deficit) at end of fiscal year . . . . .		
<b>2. <i>Improvement Budget</i></b>			<b>2. <i>Improvement Budget</i></b>		
Properties (land, buildings, improvements, and major equipment) . . . . .			Revenues (other than special assessments) . . .		
Investments in public enter- prises . . . . .			Special Assessments . . .		
			Borrowings . . . . .		
			Sales of capital assets . .		
			Surplus at beginning of fiscal year . . . . .		
<b>Total expenditures . . . .</b>			<b>Total means of financing .</b> <b>Less total expenditures . .</b> <b>Surplus (or deficit) at end</b> <b>of fiscal year . . . . .</b>		
<b>Grand total expenditures.</b>			<b>Grand total means of financing . . . . .</b>		

FIGURE 6. General Budget Summary, Separating Operating and Improvement Requirements.

budget, it ought to be drawn along the lines of character of expenditure rather than means of financing. Less confusion, it seems, is likely to result in the popular mind if the character basis is followed.

This budget summary (Figure 6) is merely an amplification of the budget summary shown in Figure 5. Both are equally inclusive, the only difference being that one does not show the outlays for improvements separate from the requirements of current operation. Much the same type of supporting schedules may be used in one case as in the other.

Sometimes the improvement budget is referred to as the "extraordinary budget," thus differentiating it from the "ordinary" or operating budget. This terminology has been used to cloak grave abuses in budget making. For example, the ordinary budget may be balanced by transferring to the extraordinary budget certain expenditures which ought to be met currently. The latter budget is then balanced, if at all, by public credit. This produces what is known as a fictitiously balanced budget, which is a thing to be avoided by all public authorities desiring to maintain a sound financial policy for their governments.

The third suggested form of general budget summary, presented in Figure 7, is designed to show public enterprises or undertakings which are on a self-supporting basis as a separate part of the budget. We have already explained why this is desirable in an earlier section of this chapter.<sup>1</sup> The first part of this summary, which is designated as "general," is the same as the summary shown in Figure 6. Only the latter part, headed "public enterprises," is different. In this part, each enterprise is listed separately, its total expenditures and reserves being shown on one side and its total income on the other side. The total income less the total expenditures and reserves gives a surplus or a deficit which is carried to the general budget directly above. If the result is a surplus, it is carried to the income side of the general budget and added to operating revenues; if a deficit, it is carried to the expenditure side directly opposite. The same thing is done in the case of each public enterprise. The reason for listing the enterprises separately is to make each one stand on its own bottom financially. This seems important enough to show on the general budget summary. Otherwise, the income and expenditures of all the enterprises (when more than one) might be pooled on the summary and shown separately on supporting schedules.

<sup>1</sup> See above, pp. 40-44.

For the Fiscal Year Beginning....., 19...

Expenditures	Supporting Schedule Nos.	Budget Proposals	Income	Supporting Schedule Nos.	Budget Proposals
<b>I. GENERAL</b>			<b>I. GENERAL</b>		
<b>1. Operating Budget</b> (Etc. as in Fig. 6)			<b>1. Operating Budget</b> (Etc. as in Fig. 6)		
Total expenditures . .			Total means of financing .		
			Less total expenditures . .		
			Surplus (or deficit) at end		
			of fiscal year . . . . .		
<b>2. Improvement Budget</b> (Etc. as in Fig. 6)			<b>2. Improvement Budget</b> (Etc. as in Fig. 6)		
Total expenditures . .			Total means of financing .		
Grand total general ex-			Less total expenditures . .		
pensitures . . . . .			Surplus (or deficit) at end		
			of fiscal year . . . . .		
			Grand total general means		
			of financing . . . . .		
<b>II. PUBLIC ENTERPRISES</b>			<b>II. PUBLIC ENTERPRISES</b>		
<b>1. (Name of enterprise)</b>			<b>1. (Name of enterprise)</b>		
Total expenditures and re-			Total income . . . . .		
serves . . . . .			Less total expenditures and		
			reserves . . . . .		
			Surplus (or deficit) carried		
			to the general budget .		
<b>2. (Name of enterprise)</b>			<b>2. (Name of enterprise)</b>		
(Etc. as above under 1)			(Etc. as above under 1)		

FIGURE 7. General Budget Summary, Showing Public Enterprises Separately.

If the summary forms presented in Figures 5 and 6 are used where the government is operating enterprises or undertakings, the result is necessarily a gross figure for the general budget. But when the budget summary is set up according to Figure 7, it produces a general budget which is net so far as the public enterprises or undertakings are concerned, since only the net results of their operations enter into it. As we have explained above, this method of setting up the general budget has certain advantages from the standpoint both of the taxpayers and the public enterprises. The general budget presents a very different appearance to the taxpayers, according as the gross or net amounts of these enterprises are taken into account. A gross general budget may give the taxpayers a greatly exaggerated notion of both the expenditures and the income of the governmental unit. This impression, however, can be avoided by the use of the net amounts. Each public enterprise can have its complete financial requirements set forth in detail in an annexed budget ("annexed" in the sense that it is adjoined to the general budget), which we shall explain later in this chapter.<sup>1</sup> The annexed budget would fully support the expenditure and income items for the enterprise as shown on the general budget summary. The point at which this annexed budget is to be found in the budget document should be indicated in the column for supporting schedule numbers on the general budget summary.

If the net general budget is a good thing in the case of public enterprises or undertakings, why is it not desirable in the case of spending departments and agencies of the government which take in certain receipts that offset, in a way, their expenditures? It has been argued that the citizens are concerned only with the net expenditures of these departments and agencies; in other words, with the amount of the taxes which have to be raised over and above their receipts to finance them. Undoubtedly, the size of the tax bill is the part of the budget which most impresses the citizens. But this fact should not cause us to overlook certain important things with respect to the departments and agencies themselves. They are not being financed on a self-supporting basis, as in the case of the public enterprises. They usually perform regular functions of the government and are not in any sense business or commercial undertakings. Furthermore, the receipts which they take in are more or less incidental to their work. For these reasons, it would appear desirable from the budgeting standpoint for such departments and agencies to turn their receipts directly into the general treasury

<sup>1</sup> See below, pp. 104-107.



# SCHEDULE 1 ANALYSIS AND COMPARISON OF 1927 EXPENDITURES, 1928 BUDGET AND 1929 REQUEST

Organization Unit	Year	Personal Services	Contractual Services	Supplies	Fixed Charges	Contingent	Maintenance Repairs	Auto-mobile Expense	Capital Outlay	Debt Payments	Other Expenses	Total
1. Attorney	1927	\$ 63,624	\$ 982	\$ 721	\$ 54	\$ 585	\$ 16	\$ 1,505	\$ 434			\$ 67,921
	1928	64,480	740	500	50	1,500	50	1,680				69,000
	1929	64,480	1,125	600	50	1,540	25	1,680	500			70,000
2. Auditor	1927	81,209	6,012	8,398	39		107		1,228			96,993
	1928	80,750	6,550	8,550	50		100		1,000			97,000
	1929	81,750	6,875	8,225	50		100		1,000			98,000
Grand Totals	1927	937,987	67,534	108,969	619,590	1,321	21,812	19,094	36,068	579,408	599,461	2,991,244
	1928	976,819	79,227	101,741	699,052	2,600	15,791	19,703	27,112	629,923	453,760	3,003,728
	1929	977,029	79,598	102,370	740,317	2,640	17,220	18,404	38,100	550,221	498,000	3,023,899

## SCHEDULE 2 ESTIMATED RECEIPTS FROM SOURCES OTHER THAN CURRENT REAL ESTATE AND PERSONAL PROPERTY TAXATION

Sources	Received 1926	Received 1927	Received First Half 1928	Estimated Second Half 1928	Estimated 1929
Taxes other than Current Real Estate and Personal:					
Delinquent tax collections	\$ 43,498	\$ 59,186	\$ 29,624	\$ 25,376	\$ 55,000
Penalties, costs and interest	34,661	42,023	13,136	24,864	38,000
Moneys and credits tax	52,861	52,868	54,503	500	55,000
Mortgage registry tax	20,459	23,570	7,310	14,000	21,000
Gross earnings tax	1,406	1,311		1,300	1,300
10 per cent inheritance tax collections	43,396	50,460		60,000	50,000
Grand Totals	196,281	229,418	104,573	126,040	220,300
		\$556,172	\$270,896	\$263,180	\$525,300

FIGURE 8. Supporting Schedules 1 and 2 of the 1929 Budget of Hennepin County, Minnesota (reproduced in part only).

and for their gross expenditure requirements to be shown in the general budget. There is then no question about their financial needs, in every particular, coming under the direct review of the legislative body.

**Supporting Schedules to the General Budget Summary.—**

The need for supporting schedules to the general budget summary should be apparent from the above discussion. Only the broad outlines of the financial plan can be shown on this summary; all details must be exhibited on supporting schedules or statements and set forth in the budget message or other explanatory text. Thus far, no uniform or systematic scheme of presenting the supporting schedules has been applied in practice. Budgetary legislation frequently requires certain analytical and accounting statements of a summary character to be set up in the budget document. But these statements are often not related to each other; furthermore, they do not support a general budget summary which presents a bird's-eye view of the financial plan of the government.

Nearly all our budget documents—national, state and local—contain a number of schedules or statements, either in summary or in detailed form. Some of these documents have a large number of such schedules or statements. For example, the national budget for 1929 had thirty-one summary statements; the North Carolina state budget for 1927-1929 had fifteen; the Virginia state budget for 1928-1930 had thirteen, the number having been recently reduced. Local budgets do not, as a rule, have many summary statements; in fact, they usually have too few such statements.

If careful attention is not given to the form and contents of the schedules supporting the general budget summary, it is likely that the number and nature of these schedules will be such as not to contribute to a clear understanding of the financial plan. Apparently, the number of supporting statements to the general summary of the national budget might be considerably reduced without any loss from an informational standpoint. Some of these statements might be consolidated, since they exhibit the same information in different forms; others might be eliminated, or placed in Part II of the budget, as they are only remotely related to the financial plan. In some state budget documents too much emphasis has been placed on statistical or accounting technique in setting up the summary statements. These statements in the case of the Virginia state budget, for example, are decidedly of the statistical type, no single, balanced statement being presented for the budget period. The recent budgets of Delaware, Pennsylvania, and Rhode Island

present summary statements which resemble conventional accounting forms. The Iowa state budget for the biennium, 1927-1929, has gone even further in this direction. This document contains as its first summary statement a capital balance sheet, which lists the

## SCHEDULE 3

ESTIMATE OF AMOUNT OF BALANCE (SUSPENSE FUND) WHICH WILL  
BE CARRIED OVER FROM 1928 TO 1929

	1926	1927	1928 Estimated
Levy on real estate and personal property . . . . .	\$2,560,796	\$2,482,247	\$2,530,535
Less amount not collected within current year for current purposes . . . . .	74,815	83,150	79,200 <sup>1</sup>
Amount received for current year purposes . . . . .	2,485,981	2,399,097	2,451,335
Receipts from sources other than current real estate and personal property levy, Sch. 2, not including direct credits to road and bridge fund . . . . .	556,172	578,582	534,076
Balance from prior year (suspense fund):			
Unexpended budget items returned . . . . .	37,331	35,755	31,307
Collections in excess of budget estimates . . . . .	21,794	41,321	56,702
Total receipts . . . . .	3,101,278	3,054,755	3,073,420
Budget for 1928 - \$3,020,728—less 1 per cent which it is estimated on a basis of the past three years will not be expended . . . . .			2,990,520
Excess of estimated receipts over estimate budget expenditures for 1928 . . . . .			82,900
Deduction:			
Budget for mothers' pensions for 1928 is \$155,000. Expenditures for first six months amount to \$101,885. Require- ments for 1928 will be at least \$203,000, which means that there will have to be expended from the above \$82,900 . . . . .			48,000
Leaving a net carry-over (suspense fund) to 1929 estimated at . . . . .			\$ 34,900

<sup>1</sup> 1928 estimated at 3.13 per cent of levy, this percentage being the average of 1926 and 1927.

FIGURE 9. Reproduction of Supporting Schedule 3 of the 1929 Budget of Hennepin County, Minnesota.

outstanding bonds of the state and the property owned by the state. The result is a large figure, several times the size of the annual operating budget of the state government. Most of the information furnished by this statement serves no useful purpose in budget planning. A large part of the assets represented on the statement can-

not be liquidated in order to meet the expenditures of the government; only those assets which can be converted into cash and expended currently have any value in financing the budget.<sup>1</sup> The amount of funded debt payable at some future time and the value of fixed properties belonging to the government are facts of little or no importance in planning for the immediate needs of the government.

Budget documents of state or local governments should contain six or eight supporting schedules to the general budget summary. These schedules should be built up from the detailed estimates and other data contained in the budget, and each one should carry a number by which it is designated on the general budget summary.

As a very good example of a simple set of schedules for a local budget, we reproduce herewith parts of two schedules (Figure 8) and a third schedule in its entirety (Figure 9) taken from the 1929 budget of Hennepin County, Minnesota. The three schedules constitute the entire set. The summary which these schedules support has already been reproduced.<sup>2</sup> Reference to it will indicate the manner in which the schedules support it. The first schedule presents an analysis of the proposed expenditures by the various classes, which are mainly according to objects. These expenditures are shown by organization units. They are compared with the actual or estimated expenditures of the organization unit for each of the two years immediately preceding the budget year. Totals are presented for each organization unit, and also at the end of the schedule for each class of expenditures. The latter totals correspond with those on the general budget summary. The second schedule presents a detailed list of all sources of income, showing the amounts anticipated for the budget year, the amounts estimated or received during the year in progress, and the amounts received during each of the two preceding years. The total of each major group corresponds with the amount shown on the general budget summary. Figure 9 reproduces the third schedule which supports the balance or surplus carried over from the previous year. It shows in detail just how this balance (called in this case the "suspense fund") has been calculated for the budget year and also for each of the two preceding years.

*Suggested Supporting Schedule Forms.*—While the schedules of the Hennepin County budget described above, are adequate for

<sup>1</sup> On this point, see, for example, F. Oakey, *Principles of Government Accounting and Reporting*, 1921, p. 9.

<sup>2</sup> See above, p. 68.



SCHEDULE 1  
EXPENDITURES CLASSIFIED BY ORGANIZATION UNITS

Organization Units	Totals 2	Current Expenses					Current Obliga- tions 8	Properties 9
		Totals 3	Services— Personal 4	Services— Contractual 5	Commodi- ties 6	Current Charges 7		
1								

FIGURE 10. Budget Schedule, Showing Expenditures by Organization Units.

most counties and for smaller cities, the larger cities and the states generally require schedules which are somewhat more elaborate. We are therefore outlining below a set of schedules, which we believe to be adequate to meet the needs of any state or city government. This set consists of eight schedules, not every one of which may be required in each case. These schedules relate directly to the general budget summary shown in Figure 5.<sup>1</sup>

The first supporting schedule (Figure 10) is designed to show the expenditures under the first three groups of the general budget summary classified by organization units, that is, by the departments, offices, boards, and other agencies of the government. The organization units should appear according to some uniform arrangement or functional grouping.<sup>2</sup> On this schedule, the current expenses group is merely subdivided into four classes and the other two groups are added. Columns 2 to 9 inclusive should be totaled at the end of the list of organization units. These totals should agree with those on the general budget summary for each main group of expenditures. In the event the budget extends over a biennium, there should be two columns under each of the headings shown above from columns 2 to 9 inclusive. The current and preceding years' expenditures may also be shown by adding two additional columns under each of these headings. However, this is likely to make an unwieldy form, since it would then have thirty-three columns. A better method, in this case, would be to spread the expenditures (actual, estimated, and proposed) across the form without increasing the number of columns, as has been done in the first supporting schedule of the Hennepin County budget (Figure 8). It will be noted that the last group on the general budget summary, namely, debt payments, is omitted from this supporting schedule, since it is analyzed by other schedules as indicated on the general budget summary.

The next supporting schedule (Figure 11) shows the revenues that appear on the general budget summary classified by sources. Columns 3 to 10 inclusive of this schedule represent the major classes of revenues by sources.<sup>3</sup> Additional columns may be provided if the budget covers two years or if comparative figures are to be shown for the two years prior to the budget period. Again, as we have suggested in the case of the previous schedule, these figures may be shown without increasing the number of columns.

<sup>1</sup> See above, p. 69.

<sup>2</sup> For an explanation of this and other classifications to be used in preparing the information for the budget document, see below, Chapter VII.

<sup>3</sup> For a discussion of these classes, see below, pp. 217-228.

SCHEDULE 2  
REVENUES CLASSIFIED BY SOURCES

Sources of Revenue 1	Totals 2	Taxes 3	Rights and Privileges 4	Services and Sales 5	Interest and Premiums 6	Fines and Forfeitures 7	Grants and Donations 8	Pension Assess- ments 9	Special Assess- ments 10

FIGURE 11. Budget Schedule, Showing Revenues by Sources.

Columns 2 to 10 inclusive should be totaled at the end of the list of sources and these totals should be cross-checked. In connection with each source of permanent revenue shown on this schedule, there should be a reference to the law authorizing it. Proposed changes in sources of revenue should also be indicated and fully explained either in the budget message or in connection with this schedule. Some budget documents classify revenues by collecting agencies, but this seems unnecessary so long as all funds are turned into the central treasury of the government.

In the event the government has several special funds, the expenditure of moneys from these funds and the allocation of receipts to them should be shown on two supporting schedules. The schedule shown in Figure 12 is designed to show the distribution during the budget period of expenditures for the various organization units according to the main classes of funds from which the expenditures are made. This schedule supports the general budget summary and also Schedule 1. If the government has only a few special expendable funds, a separate column should be provided for each fund on Figure 12. Where these funds are shown by groups on account of their numbers, each group should be separately analyzed on a statement supporting Schedule 3.<sup>1</sup> Expenditures from the earnings of endowment funds are often not shown on the budget summary or supporting schedules. It is necessary, as we have already pointed out, that such expenditures should be included, so that all financial provisions for the support of governmental institutions and agencies having endowments will be exhibited in the budget. Expenditures from working capital, or revolving funds are not shown on Schedule 3, since these funds are usually established by appropriations or transfers from the general fund and are reimbursable from the sales of services or commodities produced. Under these conditions, the budget would merely show the amount of each working capital fund at the time of its establishment and the excess receipts from each year's operation of the fund would pass into revenues and be shown under the general fund or some special fund. If a different situation exists in any state or local government, it may be necessary to show the working capital funds as a separate group in the budget and therefore supply a column on Schedule 3 for that purpose. Sinking funds are omitted from this schedule, since they are shown on another supporting schedule.<sup>2</sup> If the budget

<sup>1</sup> The main groups of special funds are expense, capital, local improvement, pension, etc. See below, p. 214.

<sup>2</sup> These funds are discussed below, p. 213.



SCHEDULE 3  
EXPENDITURES ACCORDING TO FUNDS

Organization Units I	Total Expenditures 2	General Fund 3	Special Expendable Funds				Endowment Funds 8
			Totals 4	(Name Fund) 5	(Name Fund) 6	(Name Fund) 7	

FIGURE 12. Budget Schedule, Showing Expenditures by Funds.

covers a two-year period, extra columns may be used to show the distribution for the second year of the biennium.

If the government has several funds, there should also be an analysis by funds of the income and of the surplus at the beginning of the budget period as shown on the general budget summary. This supporting schedule (Figure 13) is similar to the preceding one. Under certain conditions, as noted above, it may be necessary to list working capital funds in the columnar headings of this schedule. If any revenue accrues directly to sinking funds, as is sometimes the case, such funds should also be listed on this schedule. Additional columns should be provided under each fund and each total, if the budget covers a biennium. The distribution of the surplus at the beginning of the budget period according to funds can be taken directly from a consolidated balance sheet.<sup>1</sup>

When the government has serial bonds outstanding which must be redeemed during the budget period, a schedule should be presented showing the redemptions. The schedule in Figure 14 is designed for this purpose. The last two columns of this schedule indicate the budget requirements for interest and amortization of serial bonds.

If the government has term bonds outstanding for which sinking funds must be provided for retirement, there should be a supporting schedule showing the sinking fund installments to be provided during the budget period. Such a schedule is presented in Figure 15. The last column of this schedule shows the sinking fund requirements for the budget period. This schedule and the preceding one support the item called "debt payments" on the general budget summary. They may be combined into one schedule, if it is not desired to separate serial redemptions from sinking fund installments.

In the event the budget making authority recommends the issuance of bonds during the budget period, another schedule is required. The form of this schedule is suggested in Figure 16. It supports the item designated as "borrowings" on the general budget summary.

Finally, if it is proposed to issue bonds during the budget period, there should be a supporting schedule showing the existing redemption requirements and annual interest charges as affected by the proposed bonds. The schedule shown in Figure 17 is designed for this purpose. This schedule shows the distribution of the redemp-

<sup>1</sup> Such a balance sheet is shown in *Municipal Finance* by A. E. Buck and others, 1926, pp. 152-153.

SCHEDULE 4  
INCOME AND SURPLUS ACCORDING TO FUNDS

Classes of Income and Surplus 1	Total Income and Surplus 2	General Fund 3	Special Expendable Funds				Endowment Funds 8
			Totals 4	(Name Fund) 5	(Name Fund) 6	(Name Fund) 7	

Figure 13. Budget Schedule, Showing Income and Surplus by Funds.

tion charges of the government's existing debt over future years until the longest term bonds have matured. In this way, any unevenness in the annual redemption requirements and interest charges become apparent. If legally possible, the redemption charges of proposed bonds may then be distributed in such manner as to reduce or eliminate the unevenness. This permits an equable distribution of the government's debt burden to be arranged over future years as bonds are being issued from time to time. When viewed in another way, Schedule 8 presents what is sometimes called a "bond budget," that is, it outlines the future requirements of the government's debt service. At the same time, it definitely ties up the budgeting of bond retirements and interest payments with the general budget, the propriety of which needs no argument.

The supporting schedules described above are designed to present under ordinary conditions a fairly detailed explanation of the items shown on the general budget summary. The budget documents of some governmental units may require a larger number of these schedules in order to set forth completely the financial needs of certain functions or types of work, or to show the complexity of fund operations. It is advisable, however, to keep the number of supporting schedules down to a minimum. Any schedule which does not contribute to a better understanding of the financial plan as summarized on the general budget statement should be eliminated. A mere rearrangement or cross-classification of information already presented does not justify an additional schedule.

In connection with the improvement budget summarized above in Figure 6, there may be presented certain supporting schedules outlining the major improvement projects for which funds are asked. These schedules should show the requirements for such projects in relation to any long time financial program which the government may have adopted. Indeed, such a program may be briefly summarized and included in this part of the budget.<sup>1</sup>

A schedule showing in some detail the financial requirements of each public enterprise owned and operated by the government may be included in Part I of the budget. This schedule would support the totals for the enterprise as set forth on Figure 7 above. It would be in the nature of an operating statement and would also be presented in the annexed budget of the enterprise.<sup>2</sup>

<sup>1</sup> See below, pp. 171-176 for a discussion of long time financial planning. The California state budget document for 1929-1931 presents a ten-year building program for state institutions and schools with an explanatory message by Governor Young.

<sup>2</sup> See below, p. 105.



SCHEDULE 5  
SERIAL BOND REDEMPTIONS

Purpose of Bonds (List each series)	Citation of Law Authoriz- ing Bonds	Date of Issues	Total Amount Of Bonds Issued	Term of Bonds	Rate of Interest	Date Interest Becomes Payable	Amount of Bonds Outstand- ing	Amount of Interest Accrued for Budget Period	Amount of Bonds to be Redeemed for Budget Period
	2	3	4	5	6	7	8	9	10
I									

FIGURE 14. Budget Schedule, Showing Serial Bond Redemptions.

Frequently, the classifications employed in arranging the budgetary information are included in connection with the budget summary and supporting schedules. This seems unnecessary. The legislative body and the public are not interested in the classifications as such, but in the facts and figures presented in the budget. The method followed in arranging these facts and figures in an orderly and understandable way is merely a matter of budgetary technique.

**The Estimates, Cost Data and Financial Statements.**—We now come to a discussion of the contents and arrangement of Part II of the budget document. As indicated above, this part should contain the detailed financial plan and the collateral information which serves as a basis for Part I. These include the expenditure and revenue estimates, comparative figures from the current and preceding years, unit cost data where available, and such statements of the financial condition and operations of the government as throw light upon the budget period.

Part II should open with a recapitulation of the expenditure estimates by organization units. This table should be followed by the detailed expenditure estimates and such supporting cost data and other information as may be available and pertinent in each case. If the revenue estimates are presented in detail in this part of the budget document, there should be a summary of estimated revenues by sources followed by an explanation of each source and all the supporting facts upon which the estimate is based. There should also be included whatever financial statements are required by law to be shown in the budget document, namely, those relating to the past and current condition and operations of the general government. At the end of Part II, the annexed budgets, if any, for the public enterprises should be set up.

The recapitulation of expenditures at the beginning of Part II should show each organization unit in the government and indicate the subsequent pages upon which the supporting estimates are to be found. The organization units may be grouped according to the major functions of the government, but they should appear in the same order as on Schedule 1 (Figure 10). This is the method used in the national budget and may be recommended generally for state and local budget documents. The expenditures of each organization unit on the recapitulation may be shown to an advantage according to the character classes or groupings appearing on the general budget summary, namely, current expenses, current obligations, and properties. Personal services may be separated from other current

SCHEDULE 6  
SINKING FUND INSTALLMENTS

Title of Sinking Fund 1	Legal Reference 2	Estimated Accumula- tion by End of Current Year 3	Reserve Required by End of Current Year 4	Estimated Surplus or Deficit by End of Current Year 5	Amount Required Annually by Law 6	Amount Required Annually for Complete Redemption 7	Annual Installment Provided in the Budget 8

• FIGURE 15. Budget Schedule, Showing Sinking Fund Installments.

expenses. The recapitulation should show the proposed expenditures for the budget period and the estimated or actual expenditures during each of the two preceding years for each class and unit. These figures should be set up in parallel columns, providing two columns for the budget period in the event it covers a biennium. Only the expenditure estimates actually recommended or allowed by the budget making authority should be shown on the recapitulation or in Part I of the budget document.

In some budget documents, notably, those of New York State and the Territory of Hawaii, the expenditure estimates are grouped according to funds. For example, all expenditures to be made from the general fund are grouped together; likewise, the expenditures to be made from each of the other funds. In many cases this arrangement of the estimates cuts across the organization units. To examine the total expenditure requirements of a given organization unit, one must look under the several funds. This makes it difficult to get a complete picture of organization needs. While fund restrictions are important in budgeting, they are not of primary significance in the determination of expenditure requirements. The department or agency responsible for the expenditure seems to stand first.

The detailed estimates, following the recapitulation, should show the complete information contained on the estimate sheets of the different organization units and, in addition, the allowances or recommendations of the budget making authority for each item or group of items. In the national budget and a number of state and city budgets, the expenditure estimates submitted by the heads of the organization units are not printed; only the recommendations of the budget making authority appear in these documents. This practice is defended on the ground that the latter figures are all that mean anything so far as the proposed budget is concerned and all that should interest the members of the legislative body in considering the budget. In other words, all estimates and data received by the budget making authority are considered as preliminary to the budget recommendations, the latter only being official.

This stand was taken by Governor Lowden in submitting his budget to the Illinois legislature in 1919. The legislature requested more detailed information, since the budget as submitted showed only the standard expenditure titles without details. The department of finance then prepared a detailed supplement to the budget, called the "book of estimates," which contained the original estimates in complete form showing the detailed amounts requested by the various spending agencies. If more details had been printed



SCHEDULE 7  
PROPOSED BOND ISSUES

Purpose of Bonds 1	Total Expenditure Required for Purpose 2	Total of Previous Bond Issues 3	Amount of Proposed Bond Issue 4	Term of Bonds 5	Rate of Interest 6	Date Interest Becomes Payable 7	Amount of Interest Accrued for Budget Period 8

FIGURE 16. Budget Schedule, Showing Proposed Bond Issues.

in the budget under each heading of the classification, the legislative body would probably not have cared to see the original requests made by the various departments and agencies of the government. These requests were certainly of very little value in this case, particularly as they related to the departments under executive control, since the governor had called the departmental heads together and agreed upon his recommendations before the budget was submitted to the legislature. Further requests could not be submitted by the departmental heads except through the governor and these heads were not allowed to appear before the legislative committees to discuss their requests without the governor's approval.

A similar procedure is followed in the preparation of the national budget. The expenditure estimates, as printed in Part II of the budget document, show only the amounts recommended by the Bureau of the Budget and approved by the President. The departments and agencies of the national government are not permitted, except with the approval of either house of Congress, to make any requests for appropriations directly to Congress or any of its committees. It is argued that to include the original requests in the budget document would "weaken the responsibility of the President for the formulation of the budget, tend to raise issues between the President and his administrative subordinates, and unduly increase the work of the committees on appropriations in deciding these issues."<sup>1</sup>

Where the budgetary procedure is such that all expenditure estimates clear through the budget making authority, it seems unnecessary to present the departmental requests in the budget document. However, when the requests are not presented, the recommendations of the budget maker should be shown in approximately the same detail as the requests. Otherwise, complete information in support of the estimates will be lacking.<sup>2</sup> Where the budgetary procedure permits the heads of the different organization units to go directly to the legislative body with their requests, it would seem advisable to present in the budget document the complete information as originally furnished on the estimate forms. This will enable the members of the legislative body to check subsequent requests with those furnished at the time the budget was formulated.

In order that the reader may visualize the contents of expenditure estimates as presented in the budget document, the accompanying figures are inserted, showing estimates from typical state and city

<sup>1</sup> See W. F. Willoughby, *The National Budget System*, 1927, pp. 52-53.

<sup>2</sup> See below, pp 361-363.

SCHEDULE 8

REDEMPTION REQUIREMENTS AND ANNUAL INTEREST CHARGES AS AFFECTED BY PROPOSED BONDS

Year	Redemption Requirements			Annual Interest Charges			Total Redemption and Interest Requirements	
	Existing Debt 2	Proposed Debt 3	Total 4	Existing Debt 5	Proposed Debt 6	Total 7	Existing Debt 8	Existing and Proposed Debt 9
1								

FIGURE 17. Budget Schedule, Showing Effect of Proposed Bond Issues on Redemption Requirements and Annual Interest Charges.

budgets. Figure 18 is a reproduction of a page from the Illinois state budget for 1927-1929. This shows a recapitulation by the main classes of the expenditure grouping which is followed by the details in each class. The number of employees is shown according to the various titles. All amounts are in even dollars, the cents being omitted. The estimates are those approved by the governor.

In Figure 19 a page is reproduced from the Oregon state budget for the biennium 1927-1929. It will be seen that this estimate gives considerable general information about the work of the organization unit which is not shown on the Illinois form. It contains a summary which shows the amounts appropriated and expended during each of the two preceded bienniums, the estimated requirements during the biennium covered by the budget, the amounts recommended by the board of control,<sup>1</sup> and the estimated receipts of the organization unit during the coming biennium. Space is provided in the summary for the insertion of the amounts approved by the ways and means committee, when the budget is being considered preparatory to the passage of the appropriations by the legislature. The summary is supported by information in considerable detail, the individual positions and rates per month being specified and explanatory notes being added wherever they serve to clarify the various items.

Figure 20 is a page from the 1927 budget of the city of Rochester, New York. This shows the estimates classified by character and object of expenditure. Individual positions are not shown on the estimates, but are enumerated on another schedule showing the salaried employees of the various organization units. The details are given under the other classes. Only the appropriations for the year preceding the budget year are given; the actual expenditures of the year before that are omitted. In the event the appropriations are not rigidly followed during the year, this gives comparative information of little, or no, practical value. The departmental requests are presented with increases or decreases over the appropriations of the previous year. This latter comparison means little or nothing for the reason already stated. The estimate also presents the amounts allowed by the budget making authority and approved by the council. The last column is added after the council acts on the budget and the document is reprinted for final distribution. Such reprinting of the budget after it has been passed is of questionable

<sup>1</sup> The board of control was the budget making authority at the time this budget was prepared. The 1927 legislature, however, enacted a new state budget law which puts the responsibility for making up the budget squarely on the governor and provides that he may appoint a budget director to assist him.



value; the preparation and printing of a work program at this time would be more to the point.<sup>1</sup>

Figure 21 is the reproduction of a page from the city budget of

**DEPARTMENT OF LABOR.**  
**Rockford Free Employment Office.**

Description.	Appropriation for biennium beginning July 1, 1925.	Expenditures year beginning July 1, 1925.	Estimates as Approved.		Memo.
			Year beginning July 1, 1927.	Year beginning July 1, 1928.	
RECAPITULATION.					
Salaries and Wages.....	\$13,840	\$6,782	\$6,920	\$6,920	
Office Expenses.....	4,650	2,259	2,006	2,006	
Printing and Stationery.....	100	69	50	50	
Postage.....	60	30	30	30	
Operation.....	314	27	35	35	
Repairs and Equipment.....	200	73	100	100	
Grand total.....	\$19,164	\$9,240	\$9,141	\$9,141	
SALARIES AND WAGES.					
	<i>Per Annum.</i>				
1 Superintendent.....	\$2,000	\$2,000	\$2,000	\$2,000	
1 Assistant Superintendent.....	1,620	1,498	1,620	1,620	
1 Placement Clerk.....	1,500	1,500	1,500	1,500	
1 Stenographer.....	1,200	1,184	1,200	1,200	
Janitor Service.....	600	600	600	600	
Total:					
First year.....	\$6,920	\$6,782	\$6,920	\$6,920	
Second year.....	6,920				
OFFICE EXPENSES.					
Office supplies.....		\$ 24	\$ 50	\$ 50	
Rent.....		1,983	1,680	1,680	
Telephone and telegraph.....		196	198	198	
Miscellaneous.....		56	78	78	
Total.....	\$4,650	\$2,259	\$2,006	\$2,006	
Printing and Stationery.....	\$100	\$69	\$50	\$50	
Postage.....	\$60	\$30	\$30	\$30	
OPERATION.					
Household supplies.....	\$314	\$27	\$35	\$35	
REPAIRS AND EQUIPMENT.					
Repairs to buildings.....		\$ 7			
Repairs to furniture and fixtures.....		41	\$50	\$50	
New furniture and fixtures.....		25	50	50	
Total.....	\$200	\$73	\$100	\$100	
REVENUE.					
	None				

FIGURE 18. Detailed Expenditure Estimates Reproduced from the Illinois State Budget for 1927-29.

Cleveland, Ohio, for 1927. This shows only a part of the estimate for the manager's office, but enough to indicate the general scheme

<sup>1</sup> See below, pp. 457-463.

## STATE TREASURER

Section 1, Article III, and Sections 1 and 4, Article VI, Constitution. Sections 2732-2758, Oregon Laws.

Thomas B. Kay, State Treasurer.

Elected by the people.

Term of office, four years.

Salary, \$4,500 per annum.

Elected November 4, 1924. Term expires January 6, 1929.

**Duties:** Is custodian of all state funds and securities belonging to the various trust funds of the state; is charged with keeping all surplus moneys of the several trust funds, invested in interest-bearing securities, and to pay all properly drawn warrants authorized by law to be paid from state funds. Is also charged with the collection of inheritance taxes due the state from the estates of deceased persons.

Member of—  
State Board of Control.  
State Land Board.  
Desert Land Board.  
Emergency Board.  
State Banking Board.  
State Bond Commission.  
State Printing Board.  
State Tax Commission.

Receipts from collection of inheritance taxes, less administrative costs, are credited to the general fund of the state.

For information concerning Inheritance Tax Fund see Self-Sustaining Activities.

Personnel: Thos. B. Kay, State Treasurer.

George P. Griffith, Deputy Treasurer.

Address: Salem, Oregon.

## SUMMARY

1923-1924		1925-1926		General Classifications	1927-1928			
Appropriated	Expended	Appropriated	Estimated Expenditures		Estimated Requirements	Recommended by Board of Control	Approved by Ways and Means Committee	Estimated Receipts
\$ .....	\$ 38,984	\$ .....	\$ 38,125	Salaries and wages .....	\$ 40,920	\$ 40,920	\$ .....	\$ .....
.....	10,183	.....	9,705	General expenses .....	12,450	12,450	.....	.....
.....	719	.....	839	Operating expenses .....	1,650	1,650	.....	.....
.....	178	.....	324	Maintenance expenses .....	475	475	.....	.....
.....	2,261	.....	1,142	Capital outlays .....	1,400	1,400	.....	.....
\$ 52,630	\$ 52,225	\$ 54,000	\$ 50,135	Grand totals .....	\$ 56,895	\$ 56,895	\$ .....	\$ 127,500

## DETAIL

1925-1924 Estimated Expendi- tures	Item No.	Classification	1927-1928		Remarks and Explanatory Notations
			Estimated Expendi- tures	Recom- mended by Ways and Means Committee	
\$ 9,000 6,000 4,862 3,745 3,148 625 4,091 2,860 2,780 870 8,630 1,291 \$ 38,884	1 2 3 4 5 6 7 8 9 10 11 12	SALARIES AND WAGES State Treasurer, \$4,500 per annum... Deputy State Treasurer, \$3,000 per annum Cashier, \$225 per month Teller, \$165 per month Clerk and secretary, \$140 per month Clerk and stenographer, \$125 per month Bookkeeper, \$120 per month Stenographer, \$110 per month Six clerks and stenographers, \$100 per month Extra clerk hire	\$ 9,000 6,000 4,862 3,745 3,148 625 4,091 2,860 2,780 870 8,630 1,291 \$ 38,884	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	Item 7. This item under salaries and wages has been included to take care of part of the additional clerical work, which will be necessitated by the compiling of the biennial report, bonded indebtedness reports under chapter 59, Laws 1925-1926, and by the increased items 17 and 18 have been increased to allow for the printing of blanks, postage, and stationery to be used in preparing and compiling bonded indebtedness reports required under chapter 59, Laws 1925.
			\$ 40,920	\$ 40,920	
			\$	\$	
			\$ 275	\$	
			235		
			925		
			460		
			1,119		
			2,160		
			4,690		
			6,351		
			262		
			\$ 10,183	\$ 12,450	
\$ 719	21	OPERATING EXPENSES Printing and distribution	\$ 719	\$ 1,650	Item 19. The burglary and robbery insurance carried on state securities in the custody of the State Treasurer is at present made up of the State securities in the hands of the State Treasurer, moreover, is constantly increasing. It is, therefore, considered advisable to increase the estimate on "surety bonds and insurance." Item 21 has also been increased to provide for greater cost of printing the biennial report, which will be caused by the increase in the number of bonded indebtedness reports, and by the resulting greater demand for reports. By chapter 318, Laws of 1926, the following amounts were appropriated for administering the office of State Treasurer: salaries and wages, \$40,031; general expenses, \$11,779; operating expenses, \$2,100; interest on investments and capital outlays, \$2,130, total, \$54,000. The receipts for 1927-1928—from interest on deposit of state funds, \$125,000; miscellaneous, \$2,500—are estimated at \$127,500, all of which is available for general governmental expenses. An appropriation of \$56,895 is recommended for 1927-1928.
		MAINTENANCE EXPENSES Repairs to equipment	\$ 178	\$ 475	
		CAPITAL OUTLAYS Office furniture and equipment	\$ 2,261	\$ 1,400	

FIGURE 19. Detailed Expenditure Estimates Reproduced from the Oregon State Budget for 1927-29.

of presentation. Each class of expenditures is summarized and then shown in detail. Positions are indicated by titles; present salary rates and proposed rates are given. Supplies are analyzed by units and the unit cost shown where feasible. Expenditures actual and estimated are presented for the current year; the expenditures for the first nine months are actual, since this part of the fiscal year had transpired when the estimates were made. The expenditures for the two preceding years are also shown.

It will be noted from the above illustrations that the names of the regular employees are not printed in the detailed estimates. This is the general practice, although there are some notable exceptions as in the case of the Washington state budget and the city budget of Minneapolis. The names, at least, of all the officers and the more important employees, should be printed in the budget document, since they are of assistance to the members of the legislative body and the public in identifying the positions.<sup>1</sup> They also indicate when a position is vacant or when two positions are held by the same person, as is frequently the case in local governments. The latter method is sometimes resorted to in order to increase the compensation of a particular individual, a fact that should always be explained on the estimate.

The amounts shown on the estimates, particularly the recommendations for the budget period, should appear only in dollars. It is unnecessary, if not ridiculous, to attempt to itemize estimates to the last penny. Besides, by dropping the two places for cents, additional columnar space is provided for other information and typesetting costs are reduced.<sup>2</sup>

Considerable supporting information should be shown in connection with the estimates of each organization unit, much of which does not appear on the illustrations we have just discussed. A general statement of the organization and functions of each department or agency is helpful in understanding the scope of its work. This information may be presented in tabular form as in the Oregon state budget (Figure 19) and the Arkansas state auditor's compilation of budget information for the biennium 1925-1927 and 1927-1929, or in the form of organization charts such as those contained in the Pennsylvania state budget for the biennium 1925-1927. The estimates should be supported, wherever possible, with information on operation, per capita and unit costs, and the results of work. For example, a welfare institution should show the total number of in-

<sup>1</sup> See below, p. 244.

<sup>2</sup> The English budget usually shows amounts only in even pounds, the pound being roughly five times the value of our dollar.

## BUREAU OF FIRE

(1926 Appropriation—\$1,159,608.32)

CHARACTER AND OBJECT OF EXPENDITURE		1926 Appropriation	1927			Allowed by Board Estimate and Apportionment	Allowed by Common Council
			Departmental Requests		Increase over 1926 Appropriations		
			Detail	Total			
Current Expenses		\$ 1,148,208.32		\$ 1,155,290.80	\$ 7,082.48	\$ 970,376.70	\$ 970,376.70
A. Personal Service		1,072,108.32		1,067,440.80	(—) 4,667.52	882,526.70	882,526.70
B. Service other than Personal		29,100.00		23,850.00	(—) 5,250.00	23,850.00	23,850.00
Transportation of Persons		500.00	750.00				
Transportation of Things		1,000.00	500.00				
Subsistence and Support of Persons			2,000.00				
Subsistence and Care of Animals, Storage and Care of Vehicles		8,000.00	500.00				
Communication Service		100.00	100.00				
Printing, Binding and Advertising		1,000.00	1,500.00				
Heat, Light and Power		8,500.00	8,500.00				
Repairs		10,000.00	10,000.00				
C. Materials and Supplies		35,500.00		46,000.00	10,500.00	46,000.00	46,000.00
Office Supplies		500.00	500.00				
Fuel		16,000.00	20,000.00				
Dry Goods and Wearing Apparel		6,000.00	5,000.00				
Cleaning and Sanitary Supplies		8,000.00	8,000.00				
Motor Vehicle Supplies		5,000.00	10,500.00				
Miscellaneous Supplies			1,000.00				
Building and Construction Materials			1,000.00				
D. Equipment		9,000.00		15,500.00	6,500.00	15,500.00	15,500.00
Furniture and Fixtures (other than office)		2,000.00	2,000.00				
Machinery, Tools, etc.			1,000.00				
Hose		7,000.00	12,500.00				
F. Losses and Contingencies		2,500.00		2,500.00		2,500.00	2,500.00
d Charges		11,400.00		2,400.00	(—) 9,000.00	2,400.00	2,400.00
Contribution—Hose Co. No. 22		9,000.00					
Contribution—Rochester Protectives		2,400.00	2,400.00				
Total Current Expenses and Fixed Charges		\$ 1,159,608.32		\$ 1,157,680.80	\$ (—) 1,917.52	\$ 972,776.70	\$ 972,776.70

FIGURE 20. Detailed Expenditure Estimates Reproduced from the 1927 City Budget of Rochester, New York



mates of various classes, the number of inmates per employee, the per capita and the unit costs of operation. The health department should explain the general types of work it is doing, the expenditures for each type, and the actual accomplishments so far as they can be ascertained. If increased expenditures are required to meet new or changed conditions, these should be explained. Requests for the purchase of land, the erection of buildings or other improvements, should be thoroughly explained.<sup>1</sup>

In those governments where the revenues come from a number of sources, it is advisable to show the estimates for each source with a full explanation of how they have been calculated. These estimates should follow the expenditure estimates in Part II of the budget document and should be preceded by a summary according to sources of revenue. Comparative figures, showing receipts from each source, should be given for two years preceding the budget period. Sometimes it may be found desirable to extend these figures over five, or more, years. Bar charts may be used as an aid in showing these comparisons. Each source of revenue should be explained briefly; its effect upon the industry, trade, or business carried on under the government's jurisdiction should not be overlooked. An illustration of this method of treating revenues in the budget document is found in the Pennsylvania state budget for the biennium 1925-1927.<sup>2</sup> A casual examination of state and local budgets will reveal the fact that very little attention is generally given to the estimating of revenues. Of course in some cities and counties, the revenues other than general property taxes do not amount to very much; but in a number of cities and practically all states they constitute a very large part of the total receipts. It is important, therefore, especially in these latter cases, that the revenues be carefully estimated and the facts upon which the estimates are based set forth in the budget document.<sup>3</sup> In most European budgets, greater emphasis is placed upon the revenues than upon the expenditures.

A number of state and local budget laws provide that certain accounting statements, such as a current balance sheet, an operating statement, and a debt statement, must appear in the budget document. The purpose of these statements is to define the current condition and operations of the government. They are usually set up in the front

<sup>1</sup> See, below, Chapter VI for a complete discussion of this information; also Chapter VIII, pp. 250, 252 and 270-279.

<sup>2</sup> See pages 243 to 272 of this document, which was prepared under the direction of Clyde L. King, secretary of state and finance, and submitted to the 1925 legislature by Governor Pinchot.

<sup>3</sup> See below pp. 317-320 for a discussion of methods of estimating revenues.

## 3-MANAGER

EXPENSE	Expendi- tures 1924	Expendi- tures 1925	Actual Expendi- tures to Sept. 30, 1926	Estimated Expendi- tures from Oct. 1, 1926 to Dec. 31, 1926	Total Estimated Expendi- tures 1926	Request for 1927	1927 Compared with 1926
							Increase      Decrease
A-SALARIES AND WAGES							
1-Supervision	32,591.49	34,066.56	26,137.23	8,712.74	34,850.00	34,850.00	.....
2-Clerk hire	24,708.16	25,000.00	18,749.88	6,250.12	25,000.00	25,000.00	.....
	9,133.33	9,666.56	7,337.33	2,462.32	9,850.00	9,850.00	.....

## ANALYSIS OF SALARIES AND WAGES IN ESTIMATE FOR 1927

Title and Number of Present Position	Present Rate	Proposed Rate	Total Requested	Explanatory Remarks
A-SALARIES AND WAGES				
A-1-Supervisor				
City manager	25,000.00	.....	25,000.00	
Total A-1			25,000.00	
A-2-Clerk Hire				
Secretary	6,000.00	.....	6,000.00	
Clerk	2,100.00	.....	2,100.00	
Stenographer	1,750.00	.....	1,750.00	
Total A-2			9,850.00	
Total A			34,850.00	

B-SUPPLIES	Expendi- tures 1924	Expendi- tures 1925	Actual Expendi- tures to Sept. 30, 1926	Estimated Expendi- tures from Oct. 1, 1926 to Dec. 31, 1926	Total Estimated Expendi- tures 1926	Request for 1927	1927 Compared with 1926
							Increase      Decrease
B-SUPPLIES							
1-Office	389.40	373.58	395.53	304.44	700.00	700.00	.....
8-Cleaning and toilet	346.28	321.55	373.84	226.16	600.00	700.00	.....
10-Other	8.55	37.08	24.72	75.28	100.00	.....	100.00
	6.25	13.25	.....	.....	.....	.....	.....

## ANALYSIS OF SUPPLIES IN ESTIMATE FOR 1927

Supplies Requested	Number and Name of Units	Unit Cost	Total Requested	Explanatory Remarks
B-SUPPLIES				
B-1-Office Stationery, etc.	.....	.....	700.00	
Total B	.....	.....	700.00	

FIGURE 21. Detailed Expenditure Estimates Reproduced from the 1927 City Budget of Cleveland, Ohio.

part of the budget document, the result being that they are mixed with the summaries and schedules presenting the financial plan. There is no particular advantage to this arrangement; in fact, it is often confusing. That such statements, except those relating to indebtedness, should even appear in the budget has been questioned. While it is true that the basic data for the formulation of the budget are derived essentially from the accounting records, there is no particular reason why summary statements of these records should appear in the budget. The proper place for such statements is in the annual financial report of the government.

In those governmental units where accounting statements are required by law to appear in the budget document, they should be placed in Part II. This is the practice, for example, in setting up the North Carolina state budget.<sup>1</sup> Perhaps the first of these accounting statements should be the current balance sheet—a consolidated fund balance sheet. It should be followed by the operating statement and other statements relating to indebtedness, fund balances, and appropriation balances. A statement of the fixed property of the government may also be included. If the government owns and operates any enterprises, like public utilities, a balance sheet and operating statement for each of these may also be shown. These statements, however, should appear in connection with the annexed budget set up for each enterprise.

**Annexed Budgets of Public Enterprises.**—We have borrowed the phrase “annexed budgets” from the French budgeteers. We deem this a more appropriate term in speaking of the adjoined budgets of public enterprises than either of two other terms which have recently been suggested by W. F. Willoughby in his writings on the American budget system. Mr. Willoughby refers to such budgets as “supplementary budgets” and again as “subsidiary budgets.”<sup>2</sup> Either of these terms, more especially the former, is likely to be confused with the budgets which are sent by the budget making authority to the legislative body after the original budget has been submitted. These latter budgets are merely amendments or additions to the financial plan contained in the original budget. They are often designated as “supplementary budgets,” as, for example, in the budget amendment of Massachusetts.<sup>3</sup>

We have already discussed the need for annexed budgets in the case of public enterprises, so that our attention here may be directed

<sup>1</sup> See the North Carolina state budget for the biennium 1927-1929, p. 150 ff.

<sup>2</sup> See his work on *The National Budget System*, 1927, p. 242; also his *Principles of Public Administration*, 1928, p. 464.

<sup>3</sup> See below, pp. 393-398.

to the general nature and form of such budgets. As the term signifies, each annexed budget is in itself a complete financial plan for the enterprise or undertaking to which it relates. It is, however, balanced through the general budget, being an adjoined part of

## ANNEXED BUDGET SUMMARY

For (Name public enterprise)

Covering the Fiscal Year Beginning....., 19...

	Previous Year (Actual)	Current Year (Estimated)	Budget Year (Allowed)
<i>Expenditures:</i>			
Operating costs:			
Administration . . . . .			
Operation . . . . .			
Current repairs and maintenance . . . . .			
Total operating costs. . . . .			
Replacements . . . . .			
Additions and betterments . . . . .			
Debt retirement . . . . .			
Depreciation reserve . . . . .			
Other reserves (accumulated surplus) . . . . .			
Total expenditures and reserves			
<i>Income:</i>			
Earnings . . . . .			
Other receipts:			
Borrowings . . . . .			
Special assessments . . . . .			
Miscellaneous . . . . .			
Total other receipts . . . . .			
Total income . . . . .			
Less total expenditures and reserves . . . . .			
Surplus (or deficit) carried to the general budget . . . . .			

FIGURE 22. Annexed Budget Summary for a Public Enterprise.

this budget. With respect to its form, the annexed budget should open with a summary of the financial requirements of the enterprise or undertaking. Following this, there should be complete details with respect to the items of expenditure and income exhibited on the summary.

In the accompanying Figure 22, we present an annexed budget summary. This summary is designed to be applicable to public enterprises, more especially those of the utility type. It is intended to show all the important operations of such an enterprise, though in actual practice they may not all be included. Operating costs are divided into three groups: administration, operation, and current repairs and maintenance. In the case of local utilities, such as, water, light and power, and gas, it may be advisable to show operating costs separated between production and distribution. Expenditures for replacements may be met directly from earnings or from a small reserve for this purpose. Some utilities prefer to meet replacement costs directly as the need arises. Additions and betterments cover the expenditures made toward increasing the properties of the enterprise. These expenditures may be met out of the earnings of the enterprise, or they may be provided for in the general budget. Practice in this regard varies. The retirement charges of bonds issued for the enterprise may also be carried in the general budget rather than set up against the earnings of the enterprise. A reserve for depreciation may, or may not, be set up for the enterprise. Some authorities maintain that so long as replacements are currently made from earnings there is no need for maintaining a depreciation reserve for a public enterprise. They especially object to such a reserve being set up when the enterprise is required to retire its bonded indebtedness from earnings. This imposes what they regard as a double burden on the customers of the enterprise. Of course, it will be understood that this argument applies largely to publicly owned and operated utilities. Reserves, other than for depreciation, may be set up, such, for example, as a reserve for emergencies, a reserve for extensions, and a reserve which is in the nature of profit, that is, accumulated surplus.

Turning to the income side of the summary, it is apparent that for any public enterprise its earnings constitute the major portion of its income. However, it may have other receipts, such as, borrowings, special assessments, and miscellaneous collections. But these receipts and the corresponding expenditures are in some jurisdictions carried in the general budget. The total income of the enterprise less its total expenditures and reserves gives the surplus or deficit which is carried to the general budget.<sup>1</sup> Any surplus, however, may be held as an accumulated reserve rather than carried to the general budget. This seems to be desirable in the case of some public enter-

<sup>1</sup> These figures all appear on the general budget summary, Figure 7. See above, p. 75.



prises. Whenever such reserve, or any portion thereof, is used in financing the annual budget of the enterprise, it would appear as an item under income designated as "surplus or reserves appropriated at the beginning of the fiscal year." A deficit in the current earnings of the enterprise may be met in this way without having to make provision in the general budget. As a result, the annexed budget would be shown in exact balance and would be so exhibited on the general budget summary (Figure 7).

Detailed estimates of both expenditures and income would be set up in the annexed budget following the summary which we have just discussed. These would show the itemized requirements of the public enterprise and comparative figures for the current and preceding fiscal years. Cost data with respect to the operation of the enterprise should also be presented. Finally, a balance sheet and an operating statement of the enterprise may be included.

**Use of Charts and Graphs in the Budget Document.**—Certain graphs and charts should be included in the budget document to help visualize the financial plan and the supporting information. The data on Schedules 1 and 2 (Figures 10 and 11), shown above, may be graphically presented in the form of bar charts. Such charts should show expenditures by major classes, expenditures by organization units, income or revenue by main groups or classes, and income by funds. Often circle or pie charts are used for this purpose, but bar charts are perhaps better. The national budget document contains bar charts showing percentages of expenditures by organization units and by general governmental functions, also receipts by sources of revenue. Originally circle charts were used for this purpose, but the impression one got from these was less exact than that from the bar charts. A few state budgets have made use of charts in illustrating the summary expenditure and income data. An example of such charts is to be found in the budget document of the Territory of Hawaii for the biennium, 1927-1929. The expenditures are shown on a bar chart according to general functional groups, following the classification recommended for state expenditures by the United States Bureau of the Census.

If comparisons are to be made between the expenditures or the income of the government over a number of years, it is desirable to use line or curve charts. These charts may be drawn on the ordinary arithmetic scale, unless there is a wide difference between the figures at the beginning and at the end of the period covered. In the latter case, it is more satisfactory to draw the charts on the logarithmic

scale, since this scale is much better adapted to showing trends.<sup>1</sup> The line or curve chart may be used, to advantage to show the trend of the government's debt burden, as set forth in the preceding Schedule 8 (Figure 17) supporting the general budget summary.

Charts and graphs may be used in connection with the supporting estimates and other data contained in Part II of the budget document. A chart of the administrative organization of each department or institution is helpful in getting an idea of its different functions and the relation they bear to each other. The trend of actual expenditures by months or quarters for the current year as compared with the allotment of the appropriations or with the expenditures of the preceding year may be presented on a line chart for each organization unit of the government.<sup>2</sup> The details of the various sources of the government's revenue may be shown comparatively by charts. When an institution requests the addition of a building or unit, there should be a map or plan of the whole plant showing how the proposed structure fits into the general arrangement and how it furthers institutional development. The estimates for the development of public works projects, such as state or local highways or park systems, should be supported by maps showing the extent of the work to be done. In city governments where planning has been undertaken, such projects should be definitely connected with the grand improvement plan whenever they are related to it. This relation may be shown by the aid of maps and diagrams. The service districts of government owned utilities may also be shown in the same manner. Illustrations may even be employed to illuminate certain budget proposals. Indeed an illustrated budget document may be desirable to help the public understand the work of the government and the cost of carrying it on. A budget exhibit is, after all, only a method of illustrating the budget for the edification of the citizens and taxpayers; in other words, a sort of "graphic edition" of the financial plan.<sup>3</sup>

Generally speaking, the use that may be made of graphics and other types of illustrations in illuminating the budget documents is limited only by the ingenuity of the budget maker. So long as each chart, graph, map, or picture conveys some essential fact relating to the budget plan in a clearer and more striking manner than it can otherwise be presented, there is no need of caution for fear the

<sup>1</sup> For an explanation of the use of these scales in this connection, see *Municipal Finance* by A. E. Buck and others, 1926, pp. 230-237.

<sup>2</sup> This is explained more in detail in a subsequent chapter; see below, pp. 515 ff. Such charts were presented in the Pennsylvania state budget for the biennium 1925-1927.

<sup>3</sup> See below, discussion of budget exhibits, pp. 425-428.

budget document will be overillustrated. People are coming more and more to depend upon pictures for their impression of news: why should they not get an idea of the government's budget proposals in the same way?

**Interesting Compilations of a Budgetary Character.**—In concluding this chapter we should call attention to some interesting compilations of a budgetary character. These compilations are prepared by agencies other than the budget-making authority, usually private agencies, and generally relate to local budgets. They are designed for a twofold purpose: first, to help the legislative body in passing on the financial requirements of the government, and, second, to aid the interested public in getting a better understanding of the budgetary requirements of the various governmental agencies. Sometimes these compilations are prepared and published after the budget has been adopted by the legislative body, in which case they are useful only from the standpoint of public information.

For several years the Detroit Bureau of Governmental Research has made a digest of the budgetary requirements of the city of Detroit and published it in pamphlet form. This digest, or "summary analysis" as it is called, is prepared after the budget has been finally enacted by the city council; in fact, it is usually published a day or two before the opening day of the fiscal year covered by the budget. It is, therefore, gotten out primarily for the information of the citizens and taxpayers. It summarizes the authorized budget appropriations by character groupings, such as, fixed charges, operation and maintenance, and capital costs, and compares these figures with the previous year's expenditures, showing increases and decreases. Following this summary is a detailed analysis by funds, departments, and activities of the city government. The analysis is concerned primarily with the general expenditures which directly affect the city's tax rate, a table being presented to show how the tax dollar is apportioned among the various services of the city government.

Analyses of the budgets of both the city of Duluth and the county of St. Louis, Minnesota, have been prepared during recent years by the Taxpayers' League of St. Louis County. These analyses are similar to that of the Detroit city budget. They are published during the period the budgets are being considered by the city council and the county commissioners, in time to influence the opinions of the local legislators in taking action on the financial requirements of the city and county governments.

The board of estimate and taxation of Minneapolis, which has

control of the tax levies of the city council and four independent boards within the city government, publishes annually an analysis of the budgetary requirements of these agencies. This analysis gives comparative figures between the budget year and the three preceding years. Emphasis is largely placed on a comparison of the various tax levies, of which there are more than a score laid within the jurisdiction of the city government. This is natural since the major interest of the board of estimate and taxation is in controlling the tax rates. Considerable attention is also given to the city's indebtedness.

A similar analysis is prepared annually by the tax supervising and conservation commission of Multnomah County (Portland), Oregon. This commission is appointed by the governor of the state for the purpose of supervising the budgets of the various governmental units within Multnomah County. The analysis is published after the budgets have been passed and the tax rates fixed. It presents information on the more important aspects of the local finance problem and is replete with charts and diagrams.

A rather unique analysis of the budget requirements of a city government is the one gotten out by the Bureau of Municipal Research of the Chamber of Commerce, Hoboken, New Jersey. This analysis of the 1925 budget of the city of Hoboken was prepared under the direction of R. O. Huus, then director of the Bureau, and presented to the city commissioners. It covered the cost of all supplies and miscellaneous services of the city government. It involved a detailed study of the purchase and use of supplies and materials, the requirements of operating, maintenance and contractual services, the unit costs of doing measurable work, and the probable returns to the community, so far as ascertainable, from the expenditures for labor and commodities by the city government. In other words, the method used was both quantitative and qualitative. Comparisons were made with costs of similar work in other cities of comparable size. As a result of this study, a reduction of over \$72,000 was recommended in a total for supplies and miscellaneous services of approximately \$396,000.

Opinions differ widely anent the value of these compilations relating to the budgets of local governments. Some maintain, and rightly so, that being based on more or less incomplete budgets, they do not go far enough in making clear the actual distribution of funds to the various governmental activities. Others think that they are worth while, if they do no more than help to popularize the budgeting process—bring the citizen to understand something of the work his



government is carrying on, what this work costs, and where the money comes from to finance it. It is largely because government officials fail to do their full duty that private agencies must undertake this work. Because these agencies must work with limited staffs, and because they are often hampered in their efforts to get at facts, their best reports, useful as they may be, are frequently not as good as those which the governmental authorities could, and should, submit to their citizens. In the cases of the Detroit and the Duluth compilations, the budget documents could, and should, be made to present all the information and analyses contained in the compilations. It would then only be a matter of the citizens consulting the budget documents for the digests and supporting facts presented by the compilations. More complete information can be shown in the budget documents than it is possible to show in the independently prepared analyses. In the cases of the Minneapolis and the Multnomah County bodies, where the budgetary requirements of several local governmental agencies or units are centrally supervised, it seems advisable to have some kind of budgetary report or analysis which will give a bird's-eye view of the total financial requirements. The Hoboken study was an effort through a compilation of cost data to get at the actual needs of the city government in several phases of its work. The facts which were brought out as a result of the study ought to have been set forth in a comprehensive budget document, but owing largely to the local political situation they were never so shown. For this reason these facts were compiled and presented by a private agency interested in the expenditures of the city government. Cost data, as has already been explained in this chapter, should be shown in the budget document accompanying the detailed expenditure estimates to which they relate.



## CHAPTER V

### THE BUDGET BILLS

THE bills which are enacted by the legislative body to carry out the financial plan are now often referred to as the "budget bills." This term is sometimes applied only to the appropriation bill or bills, as expressed in the Maryland budget amendment adopted in 1916. More recently, however, it has attained a broader usage, notably in the practice of North Carolina, where it includes both appropriation and revenue bills. In view of this trend in current budgetary practice, it seems quite proper to use the term, "budget bills," to designate all bills which are required to enact the provisions of the financial plan into law, that is, all appropriation, revenue, and borrowing measures.

It is desirable, as we have pointed out in the preceding chapter, to include the budget bills in a separate part of the budget document, namely, Part III. Of course, this cannot be conveniently done unless these bills are drafted by the budget making authority, a practice which is not yet widely followed. In the national government and in many state and local governments, the budget document is submitted to the legislative body without the budget bills, these being drafted later by one or more committees of that body. A few budget documents, for example, those of the national government and the state of Pennsylvania (latter for 1925-27), contain sectional drafts of the appropriation bills in connection with the expenditure estimates of each organization unit. These drafts may later be brought together in the form of one or more appropriation bills by the proper committees of the legislative body. In the case of the national budget, this is as far as the President has seen fit to go in suggesting to Congress the form of the appropriations; he has not attempted in connection with his budgetary proposals to draft either appropriation or revenue bills.

While several state laws require the budget making authority to prepare bills embodying the expenditure requirements and the new or additional revenue proposals as set forth in the budget and to submit them to the legislature along with the budget, these bills are not usually made a part of the budget document. They are generally submitted to the legislature in manuscript form, introduced

by certain of the members, referred to the proper committees and then printed for consideration. They are, therefore, entirely detached from the printed budget document; furthermore, they are available, with few exceptions, only to the members of the legislature.<sup>1</sup> The much larger group of citizens which the budget document reaches does not even see these bills until after they are enacted into law. If citizens are to follow intelligently the budgetary process, they ought to see the bills which show the form in which the budget making authority, usually the executive, is requesting funds for the support of the government, and the manner, flexible or rigid, in which authorizations are asked by spending officers. These bills, when compared with those finally passed, will enable the public to understand more clearly the action taken by the legislative body and the limitations imposed on the executive in carrying out the budget.

Whether the budget bills are made a part of the budget document or not, there are good reasons why the budget making authority should prepare such bills for the initial consideration of the legislative body. By so doing, the budget making authority can determine, or at least suggest, with reference to the appropriations, the form in which they should be made and the conditions that should be attached to their expenditure so as not to hamper the administration. The degree to which the classification used in setting up the expenditure information in the estimates should be followed can also be indicated. Members of the legislative committees are likely not to appreciate fully the relation of this classification to the appropriations and to the accounts that are subsequently kept by the government in controlling the expenditures and in preparing the data for the next budget. By drafting bills providing for the revisions in income recommended in the budget, the budget making authority can put before the legislative body its revenue proposals in concrete form and thus greatly facilitate legislative consideration. When budget bills covering all the requirements of the financial plan are submitted with the budget document, the legislative body has the plan translated into the proper form and legal terminology to refer at once to its committees. The budget can then be taken up immediately and acted upon; it is unnecessary to wait until these bills are drafted by committee members or by draftsmen working under their direction. Even where the budget bills have no legal status, they may, if prepared and presented by the budget making authority, be

<sup>1</sup> The most recent practice in New York and North Carolina is to make these bills a part of the budget document.

very helpful to the legislative body. In several states where tentative appropriation bills have been drafted and submitted to the legislature with the budget document, they have been accepted and passed by the legislature practically without alteration in so far as their form, terms, and conditions were concerned.

The previous discussion assumes, of course, that the budget bills, particularly those providing appropriations, are enacted currently, that is, every time the budget is considered and passed. This, however, is not always the practice. In certain states, notably Wisconsin and Connecticut, the appropriation acts become part of the permanent law, hence there are no current appropriation bills other than amendments to the existing appropriation acts. Under this procedure appropriations continue from year to year until changed by the legislature. Therefore, the budget making authority would only propose amendments to existing laws should it submit appropriation bills to the legislature. Much the same situation exists in most of the states with reference to the income provided to finance the expenditure side of the budget; the state revenues are generally imposed by permanent law, some of which are merely changed by amendments to meet the annual budgetary requirements. Occasionally a new source of revenue is added, requiring a new law to be passed. A few states, however, follow the practice of revising and repassing their general revenue laws each time the budget is acted upon. In such cases, the budget making authority would submit to the legislature along with the budget, the draft of the revised revenue law embodying the budget proposals for increased or reduced revenue.

The legislative bodies of cities and other local governments usually enact each year certain appropriation and tax bills. These bills may provide for only the current appropriations and the general tax levy, or they may be more extensive, depending upon the comprehensiveness of the budget. As noted in the preceding chapter, the budgets of these governments are often nothing more than highly itemized appropriation bills prepared by the budget making authorities and submitted to the legislative bodies for their approval.<sup>1</sup>

It is our purpose to set forth in this chapter the form and provisions of the different types of budget bills, namely, appropriation, revenue, and borrowing. However, before discussing the appropriation bill, it may be well to give some attention to the general nature and itemization of appropriations.

<sup>1</sup> See above, p. 55. See also further discussion in this chapter, pp. 135 ff.

**The Nature of Appropriations.**—It is not an easy matter to define clearly and succinctly the term “appropriation.” Generally speaking, an appropriation is an authorization to spend public money as specified. But this statement is largely without meaning unless it is further explained.

In the first place, the “authorization to spend” is generally made or granted by the legislative body of the governmental unit in whose treasury the public money is, or will be, deposited to meet the expenditure. This procedure is followed uniformly by national, state and local governments, since constitutional and statutory provisions declare the legislative body of each of these governments to be the appropriating agency. This body may delegate its authority to make appropriations to administrative officials or other agencies, but this is rarely done except under rigid fund restrictions.

In the second place, an appropriation is not to be confused with a fund, particularly a special fund, as is sometimes the case in the usage of certain local governments. An appropriation does nothing more than to grant authority to spend money from the treasury, while a fund represents cash or other resources in the treasury set aside to meet definite expenditures. The fact that money has been earmarked, that is, restricted to a fund, by the legislative body does not necessarily mean that it is appropriated; sometimes further action through the passage of an appropriation bill is required to make it available for expenditure.

In the third place, an appropriation in authorizing an expenditure of public money sets certain limitations on such expenditure. These limitations relate to the amount, purpose, and period of availability. The amount may be definite or indefinite; the purpose may be stated in general terms or set forth in great detail; the period may be fixed, indeterminate, or continuous. Where a definite amount is specified in an appropriation it does not mean that the entire amount must be expended, but only so much of it as is necessary for the purpose stated, the actual expenditure being limited, of course, by the cash resources available in the fund from which the appropriation is made. In other words, any appropriation fixing a definite amount may be generally regarded as merely setting a maximum limit on the expenditure that is to be made. Where an appropriation does not fix a definite amount, there is of course no limit to the expenditure except that naturally imposed on the available resources of the fund. The purpose for which an appropriation is made may be stated in several ways. The appropriation may be made to an organization unit, to a function, or to an activity of the government, or the object



for which the money is to be expended may be specifically named or described in detail, and the manner of spending definitely outlined. Usually some governmental agency is made directly responsible for spending the money appropriated. The period for which appropriations are made varies widely. It may be definitely fixed, as for one or two years; it may be indeterminate, as when a certain amount is appropriated to erect a public building which may take three, four, or five years; or it may be continuous, going on year after year, the amount of the appropriation being automatically renewed each year.

For the purpose of further discussion it is desirable to classify appropriations according to their main types. This, we believe, can be done satisfactorily on the basis of the limitations imposed with regard to the period of availability. On this basis there are three major types of appropriations which may be designated as *annual*, *continuing*, and *indeterminate*. One other major type of appropriation, which may be called *conditional*, is differentiated by the method of authorization rather than by the period of availability. Each of these major types of appropriations may be divided into two classes, depending upon whether the amount authorized to be expended is definite or indefinite.<sup>1</sup> The annual and continuing appropriations are by far the most important of the four types. The indeterminate and conditional appropriations are not so very common; these types are largely incidental to certain methods of governmental financing. The four types of appropriations are discussed below at some length.

*Annual Appropriations.*—Literally speaking, annual appropriations mean those made each year.<sup>2</sup> According to present usage, however, this definition is too narrow. The term "annual" is applied to appropriations which are voted not only for a year, but for two or three years, or even a longer period. Such appropriations are therefore distinguished not so much by the length of the period they are available for expenditure as by the fact that they definitely terminate at some stated time, which may be at the end of one, two, three, or four years. If expenditure is to continue beyond this time, the legislative body must vote new appropriations. The unencumbered balances of annual appropriations remaining at the end of the period for which these appropriations are voted usually revert

<sup>1</sup> Francis Oakey, in his *Principles of Government Accounting and Reporting*, pp.161-166, has made a rather elaborate classification of appropriations for accounting purposes. The writer, however, is unable to agree with him as to the general types of appropriations.

<sup>2</sup> Annual appropriations are sometimes referred to as current appropriations, but this latter term is likely to be confused with the designation of appropriations for the running expenses of the government as opposed to those for capital purposes.



to the particular funds from which they are made, or to the general treasury surplus, and the appropriation accounts are definitely closed.<sup>1</sup>

When considered from the standpoint of amount, annual appropriations may be divided into two classes: definite and indefinite. A definite annual appropriation is one which names a specific amount that may be expended. This type of appropriation is generally regarded as being the most satisfactory from the point of view of budgeting and accounting. It has the requisite features for this purpose, namely, a *definite amount* to be applied to a *certain purpose* during a *fixed period*.

An indefinite annual appropriation is one that does not state the exact amount appropriated. It may provide an "amount sufficient" to operate a governmental unit, to carry out a certain piece of work, or to meet some obligation of the government; or it may appropriate the receipts of some fund for a stated purpose; or it may designate the revenues from a certain source to be expended for some object. In none of these cases can the exact amount voted by the legislative body be discovered by looking at the appropriation act. The amount, however, may be estimated for the purpose of balancing the budget; and it is very important that it should be, as we have pointed out in connection with the discussion of the general budget summary in the previous chapter. The real difficulty with the indefinite appropriation is in the exercise of proper accounting control over the expenditure. Since no definite limit is set on the amount, the agency receiving the appropriation may continue to spend at its own discretion until the resources designated for the purpose are completely exhausted. Of course, if it became too extravagant, the proper accounting officer might have authority to call a halt on its expenditures.

Where the revenues from certain taxes or other sources are appropriated to some purpose, the authorization is frequently known as a revenue appropriation. Such appropriation is nothing more than a special kind of indefinite appropriation, as indicated in the preceding paragraph. It has all the characteristics of the latter, and in addition it may fluctuate widely in amount from year to year depending upon property valuations or changing business conditions within the jurisdiction of the governmental unit. With such an appropriation

<sup>1</sup> In the national government the annual appropriation accounts are held open for two years after the end of the budget period, so that all bills incurred under the appropriations may be submitted and paid. It is not uncommon in state and city governments for the accounts to be held open for one or more months after the close of the budget period for the same reason. See below, pp. 525-526.

tion a governmental agency may have more money than it requires one year and fall short of its needs another year. Of course, the amount of money available each year under a revenue appropriation may be fairly constant or increase at a uniform rate if the source is a special mill tax on property. A number of state and local governments have levied special mill taxes for certain governmental institutions, agencies, and purposes. When the proceeds from these taxes are appropriated annually or biennially, they are usually budgeted; but frequently the legislative authorization to levy such taxes constitutes a continuing appropriation, and in such cases they may not be budgeted. This is discussed under continuing appropriations in the subsequent section.

*Continuing Appropriations.*—Continuing appropriations are authorizations to spend indefinitely, year after year, for some specified purpose. The amount appropriated in each instance may be definite or indefinite, but just the same it is renewed automatically each year, or other stated period, without further action on the part of the legislative body. When the end of the period to which a continuing appropriation applies is reached, the appropriation accounts are again credited with an amount equal to that of the preceding period. If the amount of the appropriation is indefinite, depending upon the expenditure requirements or upon certain anticipated revenues, it may then be estimated and accrued on the appropriation accounts at the beginning of the period. Any unexpended or unencumbered balance usually remains credited to the appropriation account at the end of the spending period and does not lapse as in the case of an annual appropriation.

Legislative acts providing for continuing appropriations generally have the status of permanent laws both in the national and in the state governments. For this reason such appropriations are sometimes referred to as "permanent" appropriations; in fact, they are so designated in the national budget document. Certain advocates of continuing appropriations, however, emphasize the fact that such appropriations are not to be regarded as permanent.<sup>1</sup> The distinction is made on the basis that continuing appropriations are constantly subject to change by the legislative body, and that where such appropriations are extensively used the practice is to alter them as frequently as every year or every biennium. As a matter of fact, this is largely a distinction without a difference. By way of illustration the following example of a continuing appropriation is cited from the Wisconsin Compiled Statutes of 1925, Chapter 20:

<sup>1</sup> See E. A. Fitzpatrick, *Budget Making in a Democracy*, 1918, p. 95.

There is appropriated from the general fund to the commissioner of insurance, annually, beginning July 1, 1913, fifty-five thousand three hundred dollars, for the execution of his functions as commissioner of insurance. Of this there is allotted: (a) to the commissioner of insurance an annual salary of five thousand dollars; (b) to the commissioner of insurance, such sum as may be required for his actual and necessary expenses incurred in representing the state at the annual meeting of the national convention of insurance commissioners.

As an example of a permanent appropriation the following is cited from an act of Congress of June 30, 1906:

There is permanently appropriated for each year \$3,000,000, for the expenses of the inspection of cattle, sheep, swine, and goats, and the meat and meat-food products thereof which enter into interstate or foreign commerce, and for all expenses necessary to carry into effect the provisions of the act relating to meat inspection.

An examination of the above examples reveals the fact that there is essentially no difference between them so far as concerns the type or kind of appropriation. Both appropriations have been in force for a number of years without change by the legislative body, the permanent appropriation for more than twenty years, and the continuing appropriation for about fifteen years. Both appropriations are sections of permanent law; however, the legislative body can, if it chooses, change one as readily as the other. The expenditure requirements of each appropriation appear in detail in the budgets of the respective governments. We may conclude, therefore, for all practical purposes that these appropriations are the same type or kind, that continuing appropriations are permanent appropriations and *vice versa*. As a matter of terminology, however, it seems preferable to use continuing appropriations, rather than the other term, to designate the type.<sup>1</sup>

The same general classes are to be found under continuing as under annual appropriations, that is, definite, indefinite, and revenue appropriations. What has been said above under annual appropriations by way of describing these classes is equally true here. One thing, however, needs some further discussion at this point; that is the use of the proceeds of special mill taxes under continuing appropriations. The proceeds from these taxes generally constitute special funds that often carry with them authorizations to spend for stated

<sup>1</sup> In England a considerable part, in fact, almost half, of the appropriations for the support of the national government are continuing or permanent appropriations. These appear in the budget under the head of "consolidated fund services," while the annual appropriations appear under the head of "supply services." See above, p. 62, which presents a summary statement of the English budget for 1928-29.

purposes, thus making them in effect continuing appropriations of the indefinite class. In many states, continuing appropriations are prohibited by constitutional provision or it has become the established custom to renew all appropriations periodically; consequently special mill levies have to be authorized by the legislature in these instances as a method of providing continuous support for certain institutions and agencies. Frequently, these levies are not budgeted, since they carry with them the authority to spend on the part of the institution or agency receiving the proceeds. This is an unsatisfactory feature from the standpoint of comprehensive financial planning for the government and all its agencies. While a special mill tax may provide a constantly increasing income for a public institution, permitting this institution to plan ahead for its development, such a tax tends, at the same time, to make the institution more or less independent of central governmental authorities, namely, the legislature and the executive, and therefore hampers systematic financial planning for the government as a whole. When once voted, the special mill tax may go on for years and the original amount may increase until it has doubled or trebled without any subsequent legislative sanction. Consequently such a tax often removes the institution or agency receiving it more completely from legislative control than does the ordinary continuing appropriation. Furthermore, the executive is generally prevented from budgeting the requirements of the institution or agency supported by a special mill tax, thus very seriously curtailing his managerial authority and control.<sup>1</sup>

The general tendency at the present time, especially in the state governments, is away from the use of special mill taxes. Only a few states, notably Colorado and Oregon, still levy these taxes in any appreciable amount. The reason for this is that many states have come to rely very little, if any, on the general property tax as a source of revenue. They have shifted the basis of their taxation, utilizing largely income and business taxes. Institutions and agencies, particularly those in the educational field, are now turning to other schemes, such as percentages of various kinds of revenue collected by the state government, in order to insure continuous support in lieu of the special mill taxes. Among local governments, espe-

<sup>1</sup> Several years ago when special mill taxes were more in vogue than at the present time, S. Gale Lowrie, in his book, *The Budget*, published by the Wisconsin state board of public affairs in 1912, defended the use of these taxes, especially in the case of educational institutions. He recognized that such taxes have certain disadvantages, but he thought these were outweighed by the larger advantages. Being an ardent advocate of continuing appropriations, he could scarcely have come to any other conclusion. See Chapter II of his book, pages 65-85, where he discusses both continuing appropriations and special mill taxes.



cially counties, special mill levies are still widely used wherever permissible under state laws. As budgetary methods are more widely adopted among the counties, doubtless the use of such levies will be restricted and the expenditure requirements of these governments will be budgeted.

*Indeterminate Appropriations.*—An indeterminate appropriation remains in force until the amount authorized is spent. It differs from an annual appropriation in that it does not terminate at a stated time; it is good until some specified purpose or object has been attained. It is unlike a continuing appropriation since it is not renewed automatically in the same amount at the end of a given period. It may be definite or indefinite as to amount, but generally speaking the amount is definitely specified.

Indeterminate appropriations are usually made for construction projects, such as large public buildings, the time for the completion of which cannot be definitely determined. They are sometimes made for the purpose of eradicating plant and animal diseases, when the period that the work will take is somewhat uncertain. Whatever balances of such appropriations remain after the objects or purposes for which they were made are attained generally revert to the treasury surplus, being credited to the funds from which the appropriations were originally authorized.

*Conditional Appropriations.*—A conditional appropriation is one that requires action by the legislative bodies of two governmental units. The legislative body of one unit authorizes an amount to be spent for a specified purpose and attaches certain conditions to it; the legislative body of the other unit accepts these conditions and usually votes an additional sum to be expended for the same purpose. In other words, it does not become valid as an appropriation until affirmatively acted upon by both legislative bodies. Of course, it may then be subject to executive veto in many governmental jurisdictions, but such procedure is not a distinguishing characteristic of this type of appropriation since it applies likewise to the other types.

Some illustrations of conditional appropriations are those made by the national government to the states as subsidies, the states being required in most instances to match the amounts and to meet other conditions in order to receive them; those made by states to local units, where similar action must be taken by the local units; and those made by one state requiring action by another state, to promote an object or improvement common between the two states. Sometimes interstate arrangements require action on the part of



several states and even the national government, as in the case of water power developments and irrigation projects. A simple illustration of this kind, however, is the erection of a bridge over a river which forms the boundary line between two states, each state bearing part of the cost.

It will be seen that the feature which distinguishes conditional appropriations from annual, continuing, or indeterminate appropriations is the procedure of authorization; in other respects they are the same. Conditional appropriations may in fact be annual, continuing, or indeterminate in character. However, they are usually of the annual type and definite rather than indefinite as to amounts. Many of the federal subsidies to states are continuing in character, but the states may receive them by making annual appropriations.

*Continuing versus Annual Appropriations.*—In discussing the relative merits of the four different types of appropriations, we may leave out of account altogether the third and fourth types, namely, indeterminate and conditional appropriations. Neither of these types is widely used, more especially the conditional type, it being limited to special coöperative arrangements between different governmental units. As to the relative advantages or disadvantages of the other two types, which are by all odds the most important ones, there is wide difference of opinion.

Advocates of continuing appropriations generally urge this type for the administrative and operating expenses of all the permanent services, institutions and agencies of the government. They claim that there is no need of annual action by the legislative body on the appropriations of well-established units of government; once the policy of maintaining these units has been accepted, the appropriations should be continuous. For the temporary and experimental agencies of the government, they would permit annual appropriations to be made, since these are not integral parts of the governmental machinery.<sup>1</sup>

While President Taft was inclined to favor the use of continuing or permanent appropriations in his proposed budget submitted to Congress in 1913, he thought that the administrative and operating expenses of all governmental units should be provided for through annual appropriations, since such expenses were "subjects concerning which questions of policy must be currently determined." He proposed the use of continuing appropriations in providing for the up-

<sup>1</sup> See E. A. Fitzpatrick, *Budget Making in a Democracy*, 1918, pp. 85-97, in which the arguments for continuing appropriations are fully set forth.

keep of properties, interest on the public debt, pensions, subsidies, grants, and sinking fund requirements. "With respect to these expenditures," he said, "every question of policy should be decided at the time the law is passed authorizing them."<sup>1</sup> Had his proposal been adopted by Congress, it would have necessitated an extensive revision of the existing list of permanent appropriations. This list was, and still is, very inconsistent as to what it includes. For example, the appropriation for meat inspection is permanent, while that for enforcing the pure food and drug act is annual; the appropriation for the reclamation service is permanent, although the appropriations for most other public works are annual; some subsidies to the states are provided by permanent appropriations, but others are annual.

Several advantages are claimed for continuing appropriations by those who favor this type. Such appropriations, as applied particularly to states, prevent the shutting down of administrative services through the failure of the legislative body to authorize expenditures each year or each biennium. To put it another way, they are the means of avoiding "cataclysmic administration," that is, more or less fortuitous management so far as financial requirements are concerned. With an assured income year after year from continuing appropriations, governmental departments and institutions, particularly educational institutions, are enabled to plan ahead for their work and for the extension and development of their facilities. Furthermore, administration is greatly aided, since departmental and institutional heads do not have to spend time dickering with the members of the legislative body each time appropriations are made. These are the main arguments for continuing appropriations in a nutshell.

Opposed to the use of continuing appropriations is no less a personage than General Charles G. Dawes. In his report as Director of the Bureau of the Budget, transmitting the first national budget to the President on December 5, 1921, he attacked the permanent appropriations authorized by Congress and recommended annual appropriations for practically everything. He contended that permanent or continuing appropriations lead to halfway forgotten projects—concealed in the permanent statutes—which are not properly scrutinized or reviewed by Congress, that they encourage shiftlessness and carelessness on the part of the officials receiving them, that they stand in the way of increased public attention to financial matters, that they complicate the accounting and reporting procedure of the government, and that they are not necessary to planning

<sup>1</sup> See *Message of the President Submitting a Budget for Consideration of Congress*, Senate Document No. 1113, February 26, 1913, pp. 38-42.

beyond the fiscal year. On the matter of planning ahead, he asserted that business concerns were constantly laying plans extending beyond the current year and yet the most of them work on short budget authorizations, sometimes not extending beyond six months. In order to call the attention of Congress to the large number of permanent appropriations, amounting to about one third of the total annual expenditure requirements, he included these in the budget document.<sup>1</sup> This practice has since been continued, but the permanent appropriations do not appear in the annual appropriations bills and are not reviewed by the appropriation committees of Congress.

Others who have studied the permanent appropriations of the federal government agree that they should be largely discontinued. One well-known exponent of the budget says that permanent appropriations are "difficult of defense, with the possible exception of a few cases where the government has assumed obligations of a permanent contractual character or adopted a permanent policy, such as reduction of debt through a sinking fund."<sup>2</sup> The objections to such appropriations, as this writer sees them, are that they complicate the problem of determining the financial needs of the government, introduce an element of uncertainty in arriving at the total funds voted for the support of the government or any of its activities for a given year, and seriously impair congressional power in directing and controlling the spending services of the government.

While annual appropriations may not meet all the objections raised to continuing appropriations, they do, however, promote comprehensive budgeting and make for uniformity in accounting procedure. It is not possible for annual appropriations to remain concealed in the permanent statutes for a long period as is often the case with continuing appropriations, especially in some of the state governments. Under the annual system, the complete expenditure requirements of all the agencies of a government appear in the budget, being subject to review and authorization by the legislative body. Balances of appropriations which are frequently carried over from year to year under the continuing type are generally lapsed into sur-

<sup>1</sup> In the English budget the permanent appropriations, amounting to nearly one half the total, are largely confined to debt service, subsidies, and other obligations, the expenses of administration and operation being largely provided for by annual appropriations. However, the permanent appropriations cover services which apparently should be met by annual appropriations and *vice versa*. No clear-cut line of distinction can be drawn between the two.

<sup>2</sup> See W. F. Willoughby, *The National Budget System*, 1927, p. 251. Mr. Willoughby's views on permanent appropriations were also shared by the late Martin B. Madden, who was for many years chairman of the Committee on Appropriations of the House.

plus under the annual type and the accounts closed at the end of each fiscal period, thus eliminating certain irregularities in the accounting procedure.

If rightly applied, annual appropriations do not break down the continuity of governmental services by the failure of legislative bodies, particularly those of states, to provide the annual authorizations at the proper time. It is quite possible to require such bodies to pass the appropriations by a certain date each year or each biennium, and if they do not act by that time, to provide that the appropriations of the ensuing budget period shall be the same as those of the preceding period. This has been done in some states, notably Kentucky.<sup>1</sup> Under this procedure, failure of the legislature by reason of a deadlock or otherwise to authorize the annual appropriations does not disrupt the administrative work of the government.

Annual appropriations do not prevent long time planning, as is commonly asserted by those who favor continuing appropriations. The permanent agencies of the government may plan ahead for five or ten years and be reasonably certain that, if they make out convincing cases, they will receive the necessary annual authorizations. The annual system does, however, place them more or less in competition with each other every time they demand appropriations for extended work. But this is probably a good thing for the agencies, since in this way they get an impression of each other's needs. Besides it requires the executive, or other budgeting authority, to consider the total demands of the various agencies in preparing the annual budget. This may readily lead to the preparation of a long time plan for the whole government, which would set up the expenditure requirements of all the agencies and relate them to each other and to the anticipated income. Such a plan is highly desirable; certainly, it is to be preferred to having the individual spending agencies plan for their needs without any adjustment between overlapping or duplicating activities and often at the expense of the government as a whole.<sup>2</sup> Furthermore, the legislative body can act more intelligently on the expenditure requirements of governmental agencies when they are all presented through a unified plan, that is, through the budget supported by a five or ten year program. Confusion and waste of public funds are likely to result from detached and decentralized financial planning—planning by governmental departments and institutions fostered by continuing appropriations.

The argument that continuing appropriations reduce the need for

<sup>1</sup> See below, pp. 422-424.

<sup>2</sup> See below, the discussion of long time planning, pp. 171-176.



administrative agencies dickering with the members of the legislative body to secure adequate support does not seem to be borne out in practice. Even in those states, like Wisconsin, where such appropriations are in vogue, the majority of the administrative agencies seek increases or changes in their grants every time the legislature meets. They seem to find plausible excuses for doing this every biennium; as surely as the legislative session rolls around, there they are with a batch of proposed amendments to their permanent appropriations. Such lobbying may, of course, happen under the annual system of making appropriations; it all depends on the extent of central supervision. With the proper authority and control, the executive may speak for all the administrative departments in placing their budgetary requirements before the legislative body. He may forbid the departmental and institutional heads to go to the members of the legislature, as Governor Lowden did in Illinois. Such an arrangement puts a definite stop to administrative officers dickering with the legislative body over their annual appropriations and, at the same time, it insures fair treatment of their expenditure needs.

After all, the real reason for continuing appropriations lies deeper than one might suspect; it is rooted in the administrative structure of the government itself. If the administration is largely decentralized, that is, composed of numerous independent or semi-independent agencies with only nominal executive supervision, then continuing appropriations are highly desirable. In fact, such appropriations are part and parcel of this type of organization, as is shown by the administration of the state of Wisconsin.<sup>1</sup> If the administration is centralized by placing its functions in a few orderly departments, the heads of which are responsible directly to the executive, then annual appropriations are quite satisfactory and are to be preferred to continuing appropriations in meeting the expenditure requirements of the departments and institutions. This is amply demonstrated by those states and cities which have recently reorganized their governments by centralizing administrative authority in the governor, the mayor, or the manager.

The present trend seems to be in the direction of a more extended use of the annual type of appropriations both in state and local governments. There is also agitation in the national government for the abolishment of practically all the permanent appropriations. The legislative bodies of many states and cities have for a long time au-

<sup>1</sup> See F. A. Cleveland and A. E. Buck, *The Budget and Responsible Government*, 1920, pp. 113-115, 265-267.

thorized no continuing appropriations. The provisions of some state constitutions do not permit continuing appropriations to be made by the legislature; besides, laws have recently been enacted in several states forbidding appropriations on a continuing basis. However, there are still many state and local governments which do not provide entirely for their expenditure needs through annual appropriations. These governments have varying amounts of continuing appropriations which seldom appear in their budgets. In a few states annual appropriations play a minor rôle in meeting the expenditure needs. The state administration of Wisconsin is supported almost entirely through continuing appropriations; that of Connecticut is maintained to a considerable extent by what amounts to continuing appropriations. Oregon also has a comparatively large amount of such appropriations, some of its important departments and institutions being wholly supported on the continuing appropriation basis.

**The Itemization of Appropriations.**—The degree of itemization which should be followed in making appropriations has long been a matter of much discussion; in fact, it was one of the first questions to engage the attention of American budgeteers. This was more than twenty years ago; and, judging from present practices, it is still largely an unsettled question. One has only to examine a few appropriation acts or ordinances to see that there are, at present, wide variations in the detail of appropriations authorized by the different legislative bodies,—national, state and local. Some governmental agencies are granted appropriations in lump sum amounts; others, in lump sums modified by certain detailed items; and still others, in varying numbers of segregated or independent items. Among the agencies of the national government may be found examples of appropriations of all degrees of itemization from lump sum to highly segregated. Congress has followed no consistent or uniform practice in this regard. Some appropriations, running into millions, are in lump sum amounts, requiring only a half dozen lines to state them; while others, small by comparison, are so detailed that they cover several pages of the appropriation act. The legislative bodies of state and local governments generally follow more consistent schemes in making their appropriations. That is, they are more uniform within the particular governmental unit, but as between such units there is again great diversity. The form of the appropriations ranges all the way, for example, from lump sum in North Carolina to extreme segregation in New Jersey; in the former state each department or institution is voted a single amount for its

administration and operation, while in the latter every employee and every kind of supply, material and contractual service are meticulously set forth and an amount authorized for each. Similar variations are to be found in the cities. For instance, Rochester, New York, provides the various city departments with lump sum appropriations, while Indianapolis, Indiana, sets forth in detail the expenditure objects and appropriates to each.

The historical development of itemization is interesting in this connection. A quarter of a century ago appropriations for the various agencies of state and local governments were generally made in lump sums. At this time waste and graft were widespread due largely to the fact that "administrative officers having lump sums of money at their disposal flung money right and left to hire henchmen and fatten contractors." This condition was naturally ascribed to the general lack of restrictions placed on the appropriations by the legislative bodies. The remedy suggested to meet it was the detailed itemization of the appropriations. Many state and local governments immediately adopted this remedy. It at once checked graft, since "it prevented the administrator from using any unexpended balances for the purpose of hiring henchmen just before elections or from making contracts with political leaders for work never contemplated in the act of appropriation."<sup>1</sup> But experience soon showed it to be a purely negative device. Practical administrators were not slow to see that highly segregated appropriations left no room for administrative discretion, tied the hands of good and bad officials alike, and prevented able and efficient department heads from spending their money to the best advantage. In other words, it was "an extreme measure directed against malpractices, rather than a remedy calculated to build up efficient administration." As soon as this became apparent, the New York Bureau of Municipal Research made an effort to convince legislative bodies that they ought to swing back to the use of lump sum appropriations, this time, however, with adequate accounting control over all expenditures, particularly those for personal services and commodities. In 1913, Frederick A. Cleveland, then director of the Bureau, summed up the case for detailed appropriations as follows:

The best that may be said for the detailed appropriations of the past is that they are part of a system that has operated to prevent administrative action premised on infidelity and ignorance; that legislative control over

<sup>1</sup> See "The Elements of State Budget Making," *Municipal Research*, No. 80, Dec. 1916, pp. 30-31.

administration through detailed appropriations is a device adapted for use of a political institution, in which all the elements essential to administrative efficiency are lacking. Given a responsible government and a real executive, the legislative restrictions which go with detailed appropriations are a first obstacle to efficiency to be removed.<sup>1</sup>

Despite the many valid objections to detailed appropriations, they are still very popular with state and local legislative bodies, as we have already noted. These appropriations are usually made in the same degree of itemization as the budget estimates, and therefore are often referred to, though inexactly, as the "segregated budget." This term has resulted in some confusion among those who are only slightly acquainted with the process of public budgeting. However, it is easily explained. It relates entirely to the appropriation bill and merely means that this bill contains detailed or segregated appropriations which follow more or less item for item the expenditure estimates. Below is an example of segregated appropriations made by the New Jersey legislature to the state civil service commission (Chapter 325, Laws of 1926):

A3. CIVIL SERVICE COMMISSION	
Salaries:	
Commissioners . . . . .	\$15,500.00
Chief examiner and secretary . . . . .	7,000.00
Assistant chief examiner . . . . .	4,200.00
Assistant secretary . . . . .	2,400.00
Three senior examiners . . . . .	7,020.00
Senior examiner . . . . .	3,000.00
Medical examiner . . . . .	4,200.00
Janitors . . . . .	100.00
Special examiners . . . . .	1,000.00
Monitors . . . . .	1,000.00
Compensation for assistants . . . . .	49,340.00
	<hr/>
	\$ 94,760.00
Traveling expenses . . . . .	2,000.00
Printing and office supplies . . . . .	6,000.00
Miscellaneous:	
Advertising . . . . .	3,000.00
Office equipment . . . . .	1,000.00
Incidentals . . . . .	2,000.00
	<hr/>
	6,000.00
	<hr/>
	\$108,760.00

Another example of segregated appropriations made by the city council of Indianapolis to the city controller (Appropriation Ordinance No. 3, 1926), is as follows:

<sup>1</sup> F. A. Cleveland, "Detailed versus Lump-Fund Appropriations," a paper prepared for the annual meeting of the Association of Public Accounting Officers at Chattanooga, June 6, 1913.



## PUBLIC BUDGETING

DEPARTMENT FINANCE  
ORGANIZATION UNIT: CITY CONTROLLER

1. Services — Personal	
11. Salaries and wages, regular	
Controller . . . . .	\$ 4,000.00
Deputy controller . . . . .	2,500.00
Bookkeeper . . . . .	2,400.00
License clerk . . . . .	1,800.00
Stenographers, 2 at \$1,200.00 . . . . .	2,400.00
Sinking fund commissioners, 2 at \$100.00 . . . . .	200.00
Assistant secretary athletic commission . . . . .	400.00
Clerk . . . . .	600.00
Stenographer . . . . .	1,500.00
2. Services — Contractual	
21. Communication and transportation	
211. Freight, express and drayage . . . . .	\$ 10.00
212. Postage . . . . .	300.00
214. Telephone and telegraph . . . . .	153.00
216. Traveling expenses . . . . .	500.00
Total Item No. 21 . . . . .	963.00
24. Printing and advertising . . . . .	500.00
25. Repairs . . . . .	50.00
3. Supplies	
36. Office . . . . .	5,000.00
5. Current Charges	
51. Insurance and premiums . . . . .	1,250.00
53. Refunds, awards and indemnities . . . . .	200.00
55. Subscriptions and dues . . . . .	10.00
6. Current Obligations	
61. Interest . . . . .	182,000.00
62. Grants and subsidies . . . . .	10,150.00
7. Properties	
72. Equipment . . . . .	50.00
Total: City Controller . . . . .	
	\$215,973.00

Both the foregoing examples of appropriations are in the same detail as the expenditure estimates appearing in the budget. In other words, the estimates do not give any more specific information about the requirements of the budget year than the sections of the appropriation act or ordinance already quoted. The only information not carried over from the estimates to the appropriations are the comparative expenditure figures for the year or two preceding the budget year. Furthermore, every item set down in the estimates for informational purposes becomes binding on the administrator as an item of the appropriation. If he is required, or if he elects, to supply information in his estimates in great detail, then he is that much the more restricted in his expenditure under the appropriations.

This would naturally lead to increases in the various items of the budget estimates. The administrator would ask for more than he needed, so that he would be sure to have enough under each item. Once his requests were granted, he would take care to see that all the appropriations were spent. This would justify his asking for more the next time the budget was prepared, and so on *ad infinitum*.

Under this scheme it would be difficult, if not impossible, to hold down the cost of governmental services to a reasonable annual increment.

Generally speaking, itemizations like those of the New Jersey and the Indianapolis appropriations are too detailed to permit of thoroughly efficient administration. Assuming that they are strictly adhered to, such appropriations do not permit the use of discretion on the part of administrative officers. They stereotype the processes of public management; the executive has little or no latitude in purchasing the services, commodities, and equipment needed in carrying on the governmental work under his control. In making such appropriations, the legislative body has gone too far in setting up expenditure restrictions—restrictions which are entirely unnecessary under a modern system of financial control. To set down each object and to fix its probable cost several months before it will be needed is simply to ignore the possibilities of changes in market conditions and work requirements. Yet this is exactly what every legislative body does which makes detailed appropriations to objects.

How then should appropriations be made in order to give free play to administrative discretion? This is not an easy question to answer, although recent experience seems to point the way. Obviously, there should be some limits on the extent to which legislative bodies may impose restrictions on administrative officers and agencies through the appropriations. As to where these limits should be set depends in no small measure on the stage of development reached in the financial organization and methods of the government. With the establishment of the General Accounting Office and the revival of the allotment system in the national government, it is possible for Congress to remove a great many of the restrictions placed on some of the departments and agencies through the highly itemized appropriations which have been made for a number of years. These appropriations may now be made under a few general heads with great advantage to the administrative services and with practically no danger of the funds being misused. In a number of state and city governments adequate financial control already exists to permit the use of lump sum appropriations without the possibility of undetected graft or misappropriation. In these governments the legislative bodies ought not to impose the restrictions of segregated appropriations upon the administrative departments and agencies. It is doubtful if such restrictions should be imposed even in those governments which still have poor financial organization and methods. But this is somewhat beside the point.

With proper financial control, where should the legislative body stop in restricting appropriations? It does not seem desirable to itemize beyond the general purposes for which money is to be expended by the administrative department or agency. These purposes may be shown in one of two ways: either along functional lines or according to the character of expenditure.

Frequently appropriations are made to the functions performed by administrative departments. The legislative body may desire that certain work be carried on and therefore appropriate directly to it, as in the case of the federal meat inspection. This leaves the administrative officer free to set up whatever organization he thinks is required to perform the work. When once established, this organization usually constitutes a bureau or division of the department; hence an appropriation to the function is equivalent to one to the bureau or division. In such cases the appropriation ought to be made to the subdivision of the department rather than to the function. An appropriation of this kind is to be preferred to a functional appropriation for purposes of budgetary control, since it indicates more clearly the lines of administrative responsibility. The expenditure of a functional appropriation is difficult to control unless a well-devised work program is submitted to the chief financial or accounting officer. Without such a program the accounts may be falsely charged and an ordinary audit will not reveal that fact. The functional appropriations which have been voted for some time (from 1918 to 1928) in the state of Virginia have never been very satisfactory on this account. Frequently expenditures have been made for other than the intended purposes, yet the central accounting officer (the state auditor until 1928) did not know this and was unable to ascertain it from the records. A lack of confidence on the part of the Virginia legislature in its scheme of appropriation was indicated by the fact that the salaries which were to be paid in connection with the performance of each function were itemized. This further complicated the administrator's task and curtailed his initiative, but it was probably necessary in Virginia since the state had no general regulations governing salaries or employment.

When segregation by services, commodities, and other objects is added to itemization by functions, the appropriations thus made impose very serious limitations on efficient administration. Such arrangement is equivalent to telling the administrative officer not only that he must do a certain piece of work but that he must purchase certain services and things with which to do it. Itemization

of this character should be avoided for the sake of good administration.

The other scheme of itemization is according to the character of expenditure, the main headings of which are current expenses (administration and operation), current obligations (fixed charges), acquisition of properties, and debt payments. This scheme is uniform for all governmental agencies, whereas the functional scheme is not. Besides it is more satisfactory than itemization by functions, since it indicates clearly the general nature of the expenditures. This method of segregation shows the administrator just how much the legislative body has authorized him to spend for administration and operation and how much for the acquisition of properties. If he is to be at all restricted, this scheme of itemization gives him greater leeway in the use of his judgment than any other.

A good example of itemization along character lines is the following appropriation made by the city council of Rochester, New York, to the bureau of fire for 1927:

To the Bureau of Fire (from the General Fund), the sum of nine hundred seventy-two thousand, seven hundred seventy-six dollars and seventy cents (\$972,776.70), it being estimated that this amount is to be spent as follows:

Current expenses .....	\$970,376.70
Fixed charges .....	2,400.00 <sup>1</sup>

It will be seen that this is virtually a lump sum appropriation, since the division of it into two items is not absolutely binding on the administrator. The items are merely to indicate to him that he has certain fixed charges to meet along with his current expenses. The appropriations to all the operating agencies of the Rochester city government are similar in form to this one.

The appropriation acts of North Carolina, California, Idaho and Washington, contained in the 1927 laws of these states, illustrate the use of lump sum appropriations in connection with state agencies. The appropriations to the University of North Carolina may be cited as one example. This institution received for maintenance (administration and operation), during the fiscal year 1927-28, \$850,000, and during the fiscal year 1928-29, \$880,000 (Chapter 79, Laws of 1927). It also received (Chapter 147, Laws of 1927) from bond funds for permanent improvements the sum of \$1,220,000 to be expended according to this provision:

<sup>1</sup> This appropriation authorizes the expenditure requirements shown in detail on Figure 20, above, p. 101.



For the following specific purposes: library building, classroom building, reconstruction of new West building, reconstruction of the wing of Phillips Hall, reconstruction of wing of Peabody Hall, reconstruction of Memorial Hall, new dormitory, furniture and fixtures for above buildings, permanent equipment, improvement of grounds; provided, that not more than six hundred twenty-five thousand dollars (\$625,000) of the total sum hereby appropriated shall be expended in the erection of a library building.

The division of the foregoing appropriation as between maintenance (operation) and properties, with a lump sum for each, allows the administrator practically free play in the use of funds. Even the provision added to the second amount cannot be said to hamper his action. The only thing he is really prevented from doing is diverting money from construction purposes to operation. It seems entirely proper that this line should be drawn by the legislature in making the appropriations. Since the funds for operation are controlled by executive allotments in conjunction with a central accounting system, the North Carolina legislature is fully justified in making the appropriations in lump sums.

Current experience indicates that the character grouping is as segregated as appropriations ought to be, assuming that the administration has a work program operated through an allotment system. If objects are added under each character group, the itemization then becomes too detailed, hence too hampering on the administrator. Such restrictions as are to be placed on the administrator in the form of conditions of employment, purchasing, or contracting should be prescribed by general law rather than attached to the appropriations. This is more satisfactory both from the standpoint of the legislative body and the chief administrator. It relieves the former of the tedium of passing on a multitude of details in authorizing appropriations, and it gives the latter the flexibility required in carrying on work in an efficient and economical manner.

In the transition period between segregated appropriations, which were popular some fifteen years ago, and lump sum appropriations, which have recently come into favor, some state and city governments resorted to the use of detailed schedules by objects, each schedule supporting a lump sum appropriation. Only the lump sum appropriation, however, was binding; the items in the supporting schedule could be changed or transferred by executive order.

This scheme of lump sum appropriations with itemized schedules, particularly for operating expenses, was first proposed for New York State by Governor Whitman in his tentative budget of 1916. He recommended it as a means of getting away from the highly itemized appropriations which were then in use, but the legislature

refused to adopt it. About a year later this scheme was adopted in a somewhat modified form by the state of Maryland. Lump sum appropriations were made for salaries and other current expenses, with itemized schedules following each sum so appropriated whenever more than one item was included. These schedules, according to a provision of the appropriation act, represented the initial plan of distribution and apportionment of the appropriations, and each appropriation was disbursed in accordance with the schedule attached to it, unless and until such schedule was amended. Upon application by the spending officer concerned, the governor was allowed to authorize transfers between items within any schedule, thus amending the schedule. Whenever a schedule was amended by the governor, it was transmitted with his approval to the comptroller, who thereafter was required to pay out the appropriation, or whatever balance might remain, in accordance with the amended schedule. Finally, it was provided that all transfers and changes in the schedules, made or approved by the governor, should be reported by him to the next session of the legislature. This scheme was later modified in such manner as to make appropriations out of the items contained in the appended schedules, so that the Maryland legislature now grants what are in effect itemized appropriations. A few other states, notably the Territory of Hawaii, have made use of this form of granting appropriations, namely, lump sums with supporting schedules containing transferable items. While this form is undoubtedly an improvement over highly segregated appropriations, it limits the administrator to a system of transfers between stated items when he should be permitted or required to set up a real work program.<sup>1</sup>

**The Appropriation Bill.**—It is through the appropriation bill that the legislative body takes formal action on the expenditure side of the budget. The purpose, in short, of such bill is to authorize the spending of public moneys and to fix responsibility for so doing upon some officer or agency of the government. For this reason, the appropriation bill should not be confused with the expenditure estimates and data of the budget. This is being done in some of the local governments where the only expenditure information presented to the legislative body and to the public is in the form of a detailed or segregated appropriation bill. The appropriation bill cannot be made to take the place of the estimates and supporting information in the budget, no matter how it is drafted.

<sup>1</sup> The work program is a very important, in fact a necessary, feature of budgetary control. See below, pp. 457-463.

Appropriation bills are usually enacted annually or biennially; hence they are generally regarded as temporary statutes, effective only for one or two years. However, as we have already noted, some states, notably Wisconsin and Connecticut, view their appropriation acts as permanent statutes and make them a part of the codified laws. In such cases, changes in the appropriations are made from year to year through amendments to the permanent appropriation acts rather than by the passage of new laws. This procedure results largely from the use of continuing appropriations, preference being given to this type in providing for the spending requirements of the state government.

Appropriation acts and ordinances vary greatly in length mainly on account of the degree of itemization. The appropriation acts passed each year by Congress approximate 300 closely printed pages in the statutes at large. The ten main appropriation acts for the support of federal departments and establishments for the year ending June 30, 1928, totaled over 275 pages. Other appropriation acts for the same period increased the number of pages to almost 300. As compared with this, the British Parliament ordinarily passes two appropriation acts. For the year ending March 31, 1928, these two acts totaled five pages, which included an abstract of appended schedules to the acts proper.<sup>1</sup> Examples of voluminous appropriation acts are also found among our state governments. The general appropriation act of New York State for the fiscal year beginning July 1, 1927, extended over 127 pages of the statutes, although set in 8 point type. Other appropriation acts for this fiscal year covered a large number of additional pages. The appropriation acts of Illinois for the biennium 1927-29 took up 164 pages of the statutes. Ohio's general appropriation act for the period beginning July 1, 1927, required 201 pages of the statutes. In comparison with these are the three appropriation acts of North Carolina, which covered 16 pages in the 1927 laws of that state. Among the cities there are many large appropriation ordinances. New York City, for example, spreads its general appropriation ordinance for 1927 over more than 300 large printed pages. Most of the other large cities have lengthy

<sup>1</sup> These acts were called "Consolidated Fund (No. 1) Act, 1927" (passed March 29, 1927) and "Appropriation Act, 1927" (passed July 29, 1927). During this fiscal year another act, as sometimes happens, was passed on December 22, 1927, carrying additional appropriations. It was called the "Appropriation (No. 2) Act, 1927," and contained three and one-half pages, including an abstract of schedule.

The Consolidated Fund (No. 1) Act is not regarded by the English as being, strictly speaking, an appropriation act, since it does not distribute the amount authorized to the particular "votes."

appropriation ordinances. A few cities, however, have succeeded in reducing their appropriation ordinances to very brief documents. For example, Rochester, New York, has an appropriation ordinance of about two pages. Lengthy appropriation acts and ordinances are necessary so long as legislative bodies insist on highly itemized appropriations. The remedy lies in the use of lump sum appropriations under the proper system of control.

*Multiplicity of Appropriation Bills.*—We have already alluded to the fact that the legislative bodies of many governmental units pass numerous appropriation bills authorizing expenditures to be made during a single budget period. There are as many as ten major appropriation bills passed each year by Congress. These contain the appropriations for (1) the Treasury and Post Office departments, (2) the District of Columbia, (3) the War Department, (4) the Department of Agriculture, (5) the Executive Office and independent offices, (6) the Department of Interior, (7) the Navy Department, (8) the departments of State, Justice, Commerce, and Labor, and the Judiciary, (9) the Legislative Establishment, and (10) deficiencies. The handling of these bills is somewhat facilitated by grouping the departmental needs in a single measure which clears through a special subcommittee of the Committee on Appropriations in each house of Congress. Besides these major bills, there are usually some others of lesser importance. As compared with this practice, it may again be noted that the British House of Commons usually passes only two or, at the most, three appropriation acts each year.

Many of our state legislatures pass numerous appropriation bills at each regular session. The 1925 legislature of Pennsylvania passed 328 appropriation bills which were approved by the governor; besides, 52 bills carrying appropriations from the general fund were passed and vetoed by the governor. In addition to these numerous bills, there were 28 general laws enacted carrying appropriations for amounts varying from a few hundred to several million dollars. The New York legislature passed at its 1927 session 65 appropriation bills which were approved by the governor. One of these was the general appropriation bill, carrying a total of more than \$147,000,000. The other bills were for amounts varying from \$500 up to \$18,000,000. The Illinois legislature of 1927 enacted 71 appropriation measures, varying in amounts from \$450 to over \$83,000,000. In 1925 the Colorado legislature placed on the statutes of that state 59 appropriation acts. While the legislatures of these states



lead in the passage of numerous appropriation bills, there are several other state legislatures that pass large numbers of such bills.

Undoubtedly this practice should be greatly restricted. Even the state legislatures which pass the largest number of appropriation bills are aware of this fact and attempt to include the major part of their appropriations in one bill, usually called the general or omnibus appropriation bill. The need for restricting the number of appropriation bills is recognized by the budgetary legislation of about one third of the states, the governor or other budget making authority being required to submit *an* appropriation bill along with the budget document. In Maryland, for example, the restrictions on the legislature are such that the governor's bill is likely to be the only one passed. It is now the practice in Massachusetts for each legislature to pass two appropriation bills, one designated as "general" and the other as "supplementary." Not more than ten years ago the Massachusetts legislature was accustomed to enact more than a hundred separate appropriation bills at each session. Other states find it thoroughly practical and satisfactory from the standpoint of legislative consideration to have only a limited number of appropriation bills. In fact, restrictions of this kind have a salutary effect in keeping down the number of miscellaneous appropriation bills proposed by legislative members many of which are of a "pork barrel" nature. They also tend to preserve the integrity of the budget as presented by the governor or other budget making authority.

It is now the general practice among city governments to have a single appropriation bill or ordinance covering the expenditure requirements of the budget. This makes it easy to compare the appropriations with the budget proposals; furthermore, the appropriations for each governmental unit appear in one section of the bill rather than being scattered through a number of bills as is the case in several states. In local governments, however, there is a tendency, fortunately absent among state governments, to pass supplementary appropriation bills in the course of the budget period. This is attributable in a large part at least to the fact that the local legislative bodies meet frequently throughout the year, while state legislative bodies convene normally only once a year or once every two years.

*Restrictive Provisions Relating to Appropriations.*—The appropriation bill usually contains certain provisions specifying the terms and conditions, either general or specific, under which the appropriations are to be expended. Some of these provisions are necessary; others are not. Those which are necessary relate to the amount of the appropriation, the period for which it is available, the spending

agency, and the fund from which the appropriation is payable. As we have already pointed out above in discussing the nature of appropriations, the amount is always stated or implied; that is, it may be definite or indefinite. The period, likewise, is always stated or implied; it may be fixed, indefinite, or continuous. These two requisites, namely, the amount and the period of availability, determine largely the type of the appropriation. The third requisite, that is, the spending agency, is not always stated in connection with the appropriation; however, it must be, if responsibility is to be definitely fixed for the expenditure. Appropriations are sometimes made to functions, objects, or purposes without specifically naming the agencies which are to supervise the expenditures, although they are implied in most cases. The fund, or funds, from which appropriations are payable are usually specified, since all special funds automatically place certain restrictions on the expenditure of the moneys available in them. Where the fund is not mentioned, it is generally understood that the appropriation is to be met out of the general fund, which is the only unrestricted fund.

Other provisions are often written in the appropriation bill which are not necessary to the actual authorization of the appropriations, and which in most cases ought to be made the subject of general legislation. These relate to transfers, allotments, or apportionments, control over expenditures for personal services and for supplies, materials, and equipment, general fiscal control, and sometimes general legislation. Where appropriations are highly itemized, the appropriation bill usually carries a provision for transfers between items under each spending agency subject to executive or legislative approval, or sometimes both. This is done in order to give some flexibility to the expenditure of what would otherwise be very rigid appropriations. Frequently transfers of appropriations are permitted between spending agencies as a method of meeting contingencies due to changing conditions or work requirements.<sup>1</sup> Allotments or apportionments of lump sum appropriations under executive direction are sometimes required through a provision of the appropriation bill. Likewise, provisions for control of the expenditure of appropriations for personal services and for supplies, materials, and equipment are often found in the appropriation act or ordinance. These relate to salary ranges, purchasing regulations, contracting, and so forth. Sometimes provisions covering certain aspects of general fiscal control are to be found in the appropriation measure. And this is not all; matters of general legislation may even be tacked on

<sup>1</sup> See below, pp. 487-489.

to the appropriation bill. This was, until quite recently, a rather common feature of the appropriation bills of the national government. Permanent legislation of a wholly extraneous nature was frequently incorporated in these bills and, as "riders" to necessary appropriations, went through Congress and escaped the President's veto. But recent rules adopted by Congress have, to a large extent, corrected this situation. However, there is still a great mass of legislation of a permanent character appearing in the appropriation acts, which prescribes in detail just how the appropriations must be expended.

Undoubtedly, all general provisions with reference to the expenditure of appropriations in national, state, or local governments ought to be taken out of the appropriation acts and enacted once for all as general legislation. These provisions would then become a part of the permanent statutes and it would be unnecessary to reenact them year after year in connection with the annual appropriations. A good example of this method of handling such provisions is the Illinois act in relation to state finance, approved June 10, 1919. This act makes part of the permanent law of the state nearly all of the general provisions which we have discussed above, so that it is unnecessary to include them in the appropriation acts.

A few state legislatures, notably that of Pennsylvania, frequently include appropriations in the general laws, which, in a way, is the reverse of including general legislation in the appropriation acts. Under such procedure an appropriation is often tucked away in some section of a long act, perhaps, without even mention of the fact in the title of the act. After awhile the appropriation may be practically forgotten, especially if it is of the continuing type, no one but the spending agency and the chief accounting officer being aware that it has been authorized by the legislative body. In fact, it may become so completely obscured that the budget will fail to show it as one of the expenditure requirements to be met. There is no doubt that this method of making appropriations is poor practice from the budgetary standpoint. Appropriations ought always to be made separately from the general laws, even though these laws cannot become fully effective without the authorization of expenditures.

It sometimes becomes necessary for the legislative body to give specific instructions with regard to or impose definite limitations on the expenditure of certain appropriations. In this event, such instructions or limitations may be stated in connection with the appropriation to which they relate or, if applicable to several appropriations, they may be arranged in an orderly fashion at the end of the

appropriation act. It is not advisable, however, to put too much running text in the middle of an appropriation bill, as this breaks up the continuity of the tabular matter and makes it difficult to determine quickly the amounts authorized.

*The Form of the Appropriation Bill.*—There is no general form or special phraseology employed in setting up appropriation bills. Usage varies widely not only as between national, state and local governments, but among state governments and also among local governments. Some appropriation bills are elaborate; some are very simple. This, of course, depends upon several things which we have already discussed, such as the type of appropriations, the degree of itemization, and the terms and conditions imposed by the legislative body on the expenditure of the appropriations.

Bills making annual appropriations usually state the period which they cover in the opening section. If the appropriations extend over a biennium, as in several of the states, this fact is noted; and usually the amounts are separately appropriated for each of the years. A notable exception is Pennsylvania, where the appropriations cover the entire biennium. In this case, it is left to the administration to determine how much of any appropriation is to be spent during the first year of the biennium and how much during the second year; however, it is generally assumed, as we shall explain in a later chapter, that the amount will be divided about equally between the two years.<sup>1</sup>

The funds from which appropriations are to be paid are generally stated in the appropriation bill. Sometimes the bill is divided into parts according to the various funds, but this is not good practice since it usually splits up the appropriations to some of the organization units so they appear in different parts of the bill. This makes it difficult to get an idea of the total amount appropriated to a given organization unit. It is better to specify in the beginning of the appropriation bill that all moneys not payable from the general fund are so designated in connection with the specific appropriation, and then name the special fund in each instance.

Appropriations are usually made to organization units, that is, to the departments, institutions, offices, and agencies of the government. This is a desirable practice, as we have already pointed out, since by this method responsibility is definitely fixed for expenditure. No matter in what form an appropriation is made, some governmental unit or agency must administer it. Hence, the primary or basic classification in the making of appropriations should be the

<sup>1</sup> See below, pp. 472-473.



organization unit, and the legislative body should recognize this fact in authorizing the appropriations. It may be argued that there is little point to placing the appropriations for the general construction projects, such as an office building, under some one organization unit, even though this unit may be authorized by law to supervise the work. In some instances, this argument is well taken, since such appropriations make the budget of the supervising organization unit appear much larger than it really is. Furthermore, two or three governmental agencies may be equally responsible for seeing that the money is properly expended. Such a situation should be met through specific legislation and not be left entirely to the appropriation bill.

Minor organization units or spending agencies do not always receive appropriations from the legislative body. Sometimes appropriations are made in lump sum amounts to a department of the government to meet the current needs of several institutions which may be operating under the department. This, for example, is the plan followed in making appropriations to the Ohio department of public welfare for the period ending December 31, 1928. The operation and maintenance requirements of more than a score of institutions under the direction of this department are lumped together according to certain object groups, an amount being appropriated for each group. These amounts are apportioned to the various institutions during the year by the head of the department.

In setting up the appropriations for each organization unit, tabular arrangement is much to be preferred to any other. It was the custom several years ago to write the appropriations in the form of straight textual matter, the amounts in dollars and cents being spelled out in full. For example, as late as twelve years ago, the New Jersey state appropriations were made in the following form:

#### EXECUTIVE DEPARTMENT

For the governor, for salary, ten thousand dollars; for the secretary to the governor, for salary, four thousand dollars; for compensation for assistants in the executive department, five thousand one hundred dollars; for blanks and stationery for the use of the executive department, one thousand two hundred and fifty dollars; for traveling expenses, postage, expressage and other incidental expenses, two thousand seven hundred and fifty dollars.<sup>1</sup>

It will be seen that this form makes it impossible to comprehend at a glance the amount of the different items, or the total appropriated to the organization unit without making a series of figures and

<sup>1</sup> Chapter 277, Laws of 1917.

adding them. Yet many of our governments still follow practically this same scheme in making appropriations, the only change being that they write the amounts in figures instead of letters. An example is the appropriation made by Congress to the auditor's office of the District of Columbia for the fiscal year ending June 30, 1923:

Salaries: Auditor, \$4,000; chief clerk, \$2,250; bookkeeper, \$1,800; accountant, \$1,500; clerks—three at \$1,600 each, five at \$1,400 each, one, \$1,350, four at \$1,200 each, seven at \$1,000 each, one, \$936, two at \$900 each, two at \$720 each; stenographer and typist, \$1,400; messenger, \$600; property survey officer, \$1,800; teachers' retirement section: clerks—one \$1,800, one \$1,500; disbursing officer, \$3,000; deputy disbursing officer, \$1,600; clerks—two at \$1,200 each, two at \$1,000 each, one \$900; messenger, \$600; in all \$56,276.

While this arrangement shows the amounts in figures and gives a total at the end, one has difficulty in distinguishing the number and kinds of positions. To make apparent the greater ease with which these appropriations may be comprehended under the tabulated form, we have set them up as follows:

## AUDITOR'S OFFICE

## Salaries:

Auditor . . . . .	\$ 4,000
Chief clerk . . . . .	2,250
Bookkeeper . . . . .	1,800
Accountant . . . . .	1,500

## Clerks:

3 @ \$1,600 . . . . .	4,800
5 @ 1,400 . . . . .	7,000
1 @ 1,350 . . . . .	1,350
4 @ 1,200 . . . . .	4,800
7 @ 1,000 . . . . .	7,000
1 @ 936 . . . . .	936
2 @ 900 . . . . .	1,800
2 @ 720 . . . . .	1,440

Stenographer and typist . . . . . 1,400

Messenger . . . . . 600

Property survey officer . . . . . 1,800

Teachers' retirement section

## Clerks:

1 @ \$1,800 . . . . .	1,800
1 @ 1,500 . . . . .	1,500
Disbursing officer . . . . .	3,000
Deputy disbursing officer . . . . .	1,600

## Clerks:

2 @ \$1,200 . . . . .	2,400
2 @ 1,000 . . . . .	2,000
1 @ 900 . . . . .	900
Messenger . . . . .	600

Total . . . . . \$56,276

Since the classification act of 1923 was passed, Congress has ceased to itemize the salaries in the appropriation acts; however,

the general form of the appropriations is the same. The appropriation, noted above, has been greatly shortened. For the fiscal year ending June 30, 1928, it read as follows:

#### AUDITOR'S OFFICE

For personal services in accordance with the Classification Act of 1923, \$88,640, and the compensation of the present incumbent of the position of disbursing officer of the District of Columbia shall be exclusive of his compensation as United States property and disbursing officer for the National Guard of the District of Columbia.

The preceding appropriation illustrates the advantage of personnel classification and salary standardization in making appropriations. Under such a system, the legislative body is assured of adequate control over expenditures for personal service without the necessity of making detailed appropriations.<sup>1</sup>

Some states, notably Pennsylvania, follow the same scheme as the national government in setting up appropriations. Most of the states, however, set up their appropriation bills in tabular form, using a column for each year where the appropriation period extends over a biennium. Nearly all the city and county governments follow the tabular form in making appropriations. The trend is decidedly in this direction and in a short time all legislative bodies will no doubt make their appropriations in tabular form.

The itemization of appropriations, which is perhaps the most important question in connection with the setting up of the appropriation bill, has already been discussed at length in this chapter. It has been pointed out that the appropriations should by no means follow the same detail as the estimates, but that they ought to be more or less lump sum amounts. On what basis of classification then should the lumping be made? Certainly the so-called object basis, that is, according to salaries, contractual services, supplies, materials, and equipment, is too detailed, too segregated, for administrative efficiency. Itemization of appropriations on the basis of the character grouping of expenditures seems quite adequate from the standpoint of legislative supervision of the administrative work and, at the same time, furnishes all the control that is necessary if the appropriations are spent according to a work program supported by allotments. On the character basis, the appropriations to each organization unit or spending agency would be made in two lump sum amounts, one for current expenses and the other for properties. The first amount would cover administration, operation and main-

<sup>1</sup> See, below, pp. 539-542 for further discussion on this point.

tenance, and the second amount would cover the purchase or construction of all properties, such as major equipment, buildings, improvements, and land. Very few, if any, of the operating units of the government would require appropriations for current obligations, that is, for interest, pensions, subsidies, or taxes. Whenever these requirements occur under an organization unit, they should be appropriated as a lump sum amount separately from that for current expenses or for properties. By this method they are clearly separated from the operating charges of the spending unit under which they happen to be placed for purposes of administration. Appropriations for the retirement of serial bonds or for sinking fund installments should be shown separately; these usually appear only under one department of the government, namely, the finance or treasury department. For an ordinary operating department of the government, assuming that constitutional and statutory provisions permit, the appropriations should be stated in substantially the following form:

(Name of Organization Unit)	
For current expenses (if paid from funds other than the general fund, specify fund and amount) . . . . .	\$ 000,000
For acquisition of properties (name fund or funds to be paid from and amount from each) . . . . .	000,000
Of this amount, not to exceed \$000,000 shall be spent for the following purposes:	
Construction of hospital wing . . . . .	\$000,000
Construction of power plant . . . . .	00,000
Purchase of tract of land . . . . .	00,000
Total for (name of organization unit) . . . . .	\$0,000,00

The subitems above under the second lump sum amount for the acquisition of properties are unnecessary, unless the legislative body wishes to fix the maximum that may be expended for certain buildings, improvements, or parcels of land. There is nothing to be gained in segregating the amount for current expenses, assuming that adequate accounting control is exercised according to a system of administrative allotments. If the salaries of the employees of the government have not been properly standardized, it may be advisable to segregate from the total amount for current expenses the amount that may be spent for personal services. This can be done by merely adding a line, saying: "Of this amount, not to exceed \$000,000 shall be spent for personal services." No transfers should be permitted between the amount for current expenses and the amount for the acquisition of properties. The main reason for this is to prevent the diversion to current expenses of moneys which have been appropriated for the acquisition of properties. Fund restric-



tions should also be observed in making transfers between appropriations.<sup>1</sup>

If a governmental department is very large, having under it several operative divisions, such as institutions, it may be advisable to appropriate to each of these divisions in the form outlined above. But wherever all the expenditure requirements of the department can be lumped together in making the appropriation, this form from the administrative standpoint is to be preferred to segregation.

An appropriation bill in the form just outlined may be set up directly from the information contained on the supporting schedules to the general budget summary, as explained and illustrated in the preceding chapter. Schedules 1 and 3 are particularly useful in this connection, since they show the proposed expenditures for each organization unit by character and by funds.<sup>2</sup>

Several appropriation bills, particularly those of local governments, are segregated by funds, thus requiring the repetition of some organization units under the different funds from which they receive appropriations. The writer believes, as he has indicated above, that the primary classification in making appropriations should be by organization units, the funds from which these appropriations are payable being indicated under each organization unit.

**The Revenue Bills.**—Generally speaking, the revenue acts of our national and state governments, and to some extent of our local governments, are permanent laws. They are not reënacted year after year; they are amended or repealed whenever there is occasion to change or discontinue the taxes authorized by them. As a result the annual income from most of the sources of governmental revenue is practically fixed. Under this scheme it becomes necessary for every government to have one or more taxes which may be changed or reënacted annually or biennially, so as to give a certain amount of elasticity to the revenue system and in this way take up the fluctuations in the expenditure demands of the budget. For this purpose the national government uses principally the income and luxury taxes; the state governments, the corporation, general property, motor vehicle and income taxes; and the local governments, the general property tax. But some states, for example, Alabama, Tennessee and Virginia, reënact at each regular legislative session a general revenue measure covering practically all the state license taxes and other miscellaneous revenues. The budget revenue bill of North Carolina, which is enacted biennially, is even more extensive;

<sup>1</sup> For a discussion of transfers, see below, pp. 487-489.

<sup>2</sup> See above, pp. 81 and 85.

it includes all general sources of state revenue, such as, income, inheritance, estate, franchise and license taxes.

However, as we have indicated, the common practice is to amend or repeal revenue acts when necessary and not to reënact them annually or biennially, as is generally the case with appropriation acts. In this respect we follow the English custom according to which the various taxes are fixed by permanent legislation with the exception of the income tax and certain commodity taxes, these being varied in rate from year to year, as the elastic means of balancing the budget. But among the countries of continental Europe, on the other hand, taxes are usually levied annually.

There is no particular reason for reënacting revenue laws annually; in fact, there is considerable advantage to having them stand as evidence of continuing policy with regard to business and industry. However, tax legislation should be a matter of constant public concern. It can be made so by presenting it currently to the people through the budget message, even though a part of the permanent laws. The necessary adjustment to budgetary needs, as pointed out above, can be easily made through certain elastic sources without readjusting the whole tax system. Permanent tax laws, if codified by placing them in one chapter or article, offer the same advantages from the standpoint of easy reference as the single appropriation act.

The revenue legislation of local governments is generally controlled to a large extent by state laws. Most of the sources of local revenue are fixed. The legislative bodies of these governments, therefore, have very little leeway in passing revenue ordinances; they may vary the rate of the general property tax, but frequently the upper limit of it is fixed. Cities of a whole state sometimes find themselves in a more or less serious plight on account of tax limits set by the state government. Under such conditions, the discovery of some method of successfully evading the tax limits often becomes one of the chief features of local budgeting.

There is no general form used in setting up revenue or tax bills. Such bills vary widely in both style and length among the different governments, just as do appropriation bills. Some are voluminous, as in the case of those levying income or corporation taxes; some are very brief, particularly those fixing the tax rate on general property. The latter bills are enacted annually by practically all local legislative bodies and by many of the state legislatures. A bill of this kind usually lays the general tax levy in mills on each dollar of assessed value of real and personal property within the jurisdiction of the government making the levy. In the event the general

levy is divided among two or more funds, the distribution is made either by mills aggregating the general levy or by amounts aggregating the total amount that the general levy is calculated to yield. The latter method is preferable.

Revenue bills are seldom required by law to be submitted in connection with the budget. A notable exception, however, is in the case of the state budget of North Carolina where the governor accompanies the budget document with a revenue bill. Usually the revenue measures required to supply funds to meet the expenditures of the budget are drafted by legislative committees. Under this procedure, these measures may embody the budgetary proposals for revenue or they may not; frequently they do not, in which case the legislative body as a whole never has the opportunity to consider the original proposals. Therefore, the executive, or other budget making authority, should be responsible for presenting to the legislative body such revenue bills or amendments to existing tax laws as may be required to carry out the budgetary recommendations. These bills or amendments will usually relate to the elastic sources of revenue, unless some new tax proposals are made in the budget.

**The Borrowing Measures.**—Borrowed moneys now play an important part in the financing of nearly every public budget. This is particularly true in the case of state and local budgets. Roads, waterways, institutions, and public buildings are projects for which state governments often borrow money. City and county governments frequently borrow for roads and streets, drainage and sewerage systems, parks, buildings, and public utilities. Beginning with the construction of the Panama Canal, the national government also embarked on the policy of borrowing to finance certain public works.

In view of the present trend, borrowing measures need to be emphasized in the procedure of public budgeting. There is no better way to do this than for the executive, or other budget making authority, to accompany the budgetary proposals with the necessary bills to authorize the issuance of bonds. With the legal assistance usually afforded by the law department of the administration, the executive is generally in a better position to draft these bills than is the legislative body working through one of its committees. Furthermore, several questions arise in connection with any proposal for the issuance of bonds on which the executive should give his best judgment. These relate to the kind of bonds to be issued, the term of the bonds, the rate of interest, and the provisions for redemption. Of course, the action that may be taken on these phases of borrowing is often restricted by constitutional and statutory

provisions, but there is always some room for the exercise of discretion. The consolidation of bond issues is also a question on which the executive may make valuable suggestions to the legislative body.

Borrowing measures differ widely as to form and contents among the various governments. They usually prescribe the purpose, kind, and term of the bonds, the interest rate, and the method of retirement, subject to the provisions of state constitutions, charters and general laws. Often debt limits are prescribed for local governments beyond which they cannot issue bonds for certain purposes. After the legislative body has given its approval, a referendum to the people may also be required to authorize the issuance of bonds. These special provisions must be taken into consideration in drafting the borrowing bills.



## CHAPTER VI

### NATURE AND SOURCES OF BUDGETARY INFORMATION

TO PREPARE the budget document, which we have described in the two preceding chapters, the budget maker must have certain information. In the following pages we propose to discuss the general nature of this information and the sources from which it is drawn. Broadly outlined, it relates to the existing governmental policy, especially as such policy pertains to the development and expansion of public agencies, to the sources of governmental income and the forms of taxation, and to the extent and character of financial obligations; it touches the existing economic, industrial and social conditions and their influence on the revenues and operations of the government; and it comprehends the current financial requirements of the government both as to income and outgo. Upon the basis of such facts and figures are prognosticated the fiscal demands of the immediate future as expressed in the budget. In determining these demands, the budget maker must have specific and detailed data from the various departments and spending agencies of the government. These data relate to the departmental policy, organization and work; the expenditure needs, based on current demands and expressed in terms of purchases and payments; and the cost figures which show actual performance and indicate probable trends. In addition to these data, the budget maker should take a look ahead by formulating a long time financial program, particularly with reference to public improvements and other developmental work.

**Budgetary Information of a General Nature.**—The scope of the government and the extent of its jurisdiction determine to a very large degree the general character of the information required in budgeting. To make this clear one has only to compare briefly the relative authority and interests of the national, state and local governments. The national government is supreme in its authority, except as certain rights are reserved to the states. Its financial status is affected not only by countrywide economic and social conditions but also by international agreements and trade relations. The state governments have wide powers within their own boundaries, still they are somewhat influenced in matters of taxation

and expenditure by what the national government does. While they are largely guided in determining their fiscal requirements by internal conditions, they are affected to no small degree by the general conditions of the country and by the movement of certain industries from one section to another. The local governments are more or less the creatures of state authority; they operate within narrow confines and are subject to many limiting provisions in conducting their financial affairs. They, too, may be affected by general economic or trade conditions, but their interests, in general, are bounded by the limits of their prescribed jurisdictions. It is, therefore, apparent that the problems confronting each of these governments in the matter of financial planning must of necessity be different. Likewise, the general budgetary information which they ought to have will vary with the type of the government. In the discussion which follows, these facts should be borne in mind.

As we have pointed out above, the information of a general and summary character needed by the budget maker relates to (1) the general policy—particularly the financial policy—of the government, (2) the economic, industrial and social conditions, (3) the current financial demands of the government, and (4) the budgetary requirements, both as to income and outgo, for the future period. These types of information are discussed below in the order just named.

*The General Policy of the Government.*—Regardless of the type of government for which the budget is being prepared, the budget maker will find himself hedged about not only by constitutional and statutory provisions but also by certain more or less well-defined policies or customs. These relate to such matters as the scope, organization and methods of the governmental agencies; the existence of obligatory expenditures, like interest, debt redemption, pensions, social insurance, and subsidies; the forms of taxation; and the methods of financing capital improvements.

While the jurisdiction of a government determines in many respects the scope of its functions, policy usually controls the extent and direction of its activities. This accounts for the differences which exist between the work of the various state, city, or county governments. Some states build canals and waterways; others foster conservation and development of their natural resources; others construct extensive highways connecting every city and town within their boundaries; and still others operate business and industrial enterprises, such as, banks, mills, grain elevators, cement plants, and coal mines. Among the cities, there is the same wide variation.

Some own and operate such public utilities as water supply, electric light and power, gas, and street railways; others do not. Some maintain educational and welfare institutions, while others rely on the state government to provide for these needs. Counties are similar to the cities; some have elaborate governments, others only the bare essentials. It requires no stretch of the imagination to understand how these differences resulting from general policy have a very real effect on the budgetary requirements of the several governments.

Much the same thing is true in the matter of the organization and methods of governmental agencies. The administrative functions of some states are scattered among numerous agencies, which are uncoördinated in their work and not responsible to any directing head; likewise, the administrative methods are those of a generation or more ago, being hopelessly inadequate for present-day usage and conducive to waste and even graft. Such organization and methods have, like Topsy, "just grown"; they continue to be maintained by the inertia of custom, the general policy being "hands off." Imagine the difficulties the governor would have under such circumstances should he attempt the preparation of a thorough-going budget, assuming that he had the legal authority! Other states have placed their administrative functions in a few orderly departments under executive direction and supervision and have adopted fairly up-to-date methods and procedure for carrying on their work. In these states where the policy is modernized government, the task of budget making for the governor is greatly simplified, since he is in a position to secure adequate budgetary information. From the standpoint of organization and methods, cities are somewhat in advance of states, scores of them having adopted such modern forms of government as the centralized mayor and the manager types. In this regard, both cities and states are far ahead of counties. The movement in the direction of modern structure and methods is just beginning in county governments. When viewed from the standpoint of systematic organization, much still remains to be done in the case of the national government.

But has this anything to do with budgeting? Undoubtedly it has. Organization and methods influence directly the cost of the work performed or the services rendered by any government. They are, therefore, highly significant and must be taken into account in the budget.

Aside from the scope, organization and methods of the government, which determine in a large degree the operating costs, there

are certain obligatory charges which grow out of policies relating to indebtedness, pensions, and subsidies. The national government and practically every state and local government is required annually to meet certain interest and debt redemption charges. In the case of some states, these charges are growing quite burdensome, although a few states either have no bonded indebtedness or only a very small amount. Much the same situation prevails in the cities and counties, many of which have borrowed heavily for one purpose or another. While it may have been poor policy for a government to have borrowed for certain purposes at some previous time, the financial results of such policy cannot later be changed. Once the bonds have been issued, the die is cast. Succeeding budgets must provide for the interest and redemption charges.

Although not the same kind of obligation exists with respect to pensions as in the case of bond issues, the government is nevertheless practically bound, when once it has embarked upon a policy of pensioning certain of its citizens, to keep it up. The national government provides in its budget each year for an enormous expenditure on account of military pensions. Many of the southern states pension war veterans of the Confederacy and their families. About a third of the states have provided bonuses for soldiers of the World War by issuing bonds aggregating more than a quarter of a billion dollars.

The national government and several state and local governments provide retirement systems for their superannuated employees. Some of these systems are contributory on the part of employees; others are noncontributory. In the former case, the government usually meets part of the cost; in the latter case, all of it. Varying amounts for this purpose must, therefore, be provided in the budget.

Social insurance is rapidly gaining ground in this country and may be found in one form or another in many of our states. Industrial accident insurance is already widely adopted among the states; a number of states have mothers' pensions and a few have provisions for old age pensions; others are considering health and unemployment insurance of the character found in several European countries. Social insurance, particularly when it is of the pension type, must be met largely through the budgets of those governments which provide it.

Subsidies to the states for education, welfare, conservation, and construction purposes are now being provided each year by Congress. The total annual amount of these subsidies is more than one hundred million dollars. Although President Coolidge often protested in his



budget messages against increasing this form of federal expenditure, Congress did not see fit to alter its policy on the subject. Many state legislatures have also adopted the plan of voting subsidies to local governments within their several jurisdictions. These are policies which the budget maker cannot ignore: he must take them into account in his budget. For that reason, he should have full and complete information upon the nature and effect of all obligatory charges which must be met by the government.

In providing revenues for the support of the government certain definite policies are usually followed. These relate in a general way to the forms of taxation, the separation of tax sources among the various governments, and the relation of the tax burden to private income. In bygone days the best system of taxation was conceded to be the one that secured the most feathers with the fewest squawks. But conditions have vastly changed. Now it is considered good policy to distribute as widely and as equitably as possible the burden of taxation. For this reason the income tax has become a popular source of both national and state revenue. The rapid development of industry has brought into existence various kinds of corporation taxes. The motorization of the country almost over night has made it necessary to construct and maintain a gigantic network of public roads extending into every wayside hamlet, which in turn has made gasoline and motor taxes very popular as a means of meeting this enormous cost. At the present time, diversity seems to be the watch-word in taxation. Every government is looking for new things to tax, or new methods of applying old taxes, all of which concern the budget maker.

Another thing of interest to the budget maker is the sources of taxation which are exploited by the different types of government. The national government derives the major part of its revenue from the income tax and from customs. State governments get most of their revenues from corporation and business license taxes, gasoline and motor taxes, and the general property tax. Local governments are confined largely to the general property tax and certain license taxes. This does not mean, however, that the line of separation is clearly drawn in each instance; for it is not. Several states derive considerable revenue from the income tax, and in certain cases they divide the receipts from this tax with the local governments within their jurisdictions. Some states do not levy a tax on general property, but permit the local governments to make sole use of this source. However, in many instances definite limits are set on the rate that may be levied or the amount that may be raised from the

general property tax by local governments. These are merely some of the important features of the tax systems of the different governments which should be kept in mind in making budgetary recommendations.

Finally, the policy of the government with reference to the financing of public improvements directly concerns the budget maker. Are such improvements financed entirely by borrowings, entirely by current revenues, or by a combination of borrowings and current revenues? The national government pays for most of its public improvements out of current revenues, although it has resorted to bond issues for the construction of the Panama Canal. The state governments use all three methods; some borrow heavily for practically all their improvements; others follow the pay-as-you-go plan and avoid borrowing altogether; and still others combine borrowed moneys with current revenues in meeting the most of their capital projects. City and county governments are inclined to borrow for most of their improvements, when not prevented by debt limitations; although some do attempt to follow the pay-as-you-go plan, particularly with reference to improvements of an annually recurring nature. Whatever the policy may be, the budget maker must recognize it in framing his budgetary proposals for capital expenditures.

*Economic, Industrial and Social Conditions.*—Recently there has been rather widespread criticism of the extravagance of government as indicated by the increasing tax burden. The budget maker should not overlook public complaints of this nature. He should search for the facts in the case and present them in his budget message. Undoubtedly the relation of the tax burden to the private wealth of the country, as a whole, or of any part of it, is of fundamental significance in the economy of government. In a recent study of New York state expenditures this relation was measured by comparing the growth of the total tax burden with the increase of private wealth over a number of years.<sup>1</sup> Private income was taken as the most likely index of wealth and this factor was shown in relation to the total tax burden—federal, state and local—falling on the people of the state during a period of seventy-five years, or from 1850 to 1925. Entirely satisfactory data for the study could not be secured, but there was warrant for the conclusion that during normal times, leaving out of account the Civil War and the World War periods,

<sup>1</sup> See *State Expenditures, Tax Burden, and Wealth*, a report by the Special Joint Committee on Taxation and Retrenchment of New York State, Legislative Document No. 68, February 11, 1926, pp. 21-22, 93-106.

the total tax burden had not grown at a faster rate than private income; however, by including these periods, the total tax burden did show a slight tendency to increase more rapidly than the income of the people. At the end of the period studied the total tax burden consumed something over 12 per cent of the aggregate private income. In other words, about one eighth of the productive energy of the people of New York State was being absorbed in support of governmental agencies and activities of one kind or another. From this it may be calculated that if, on account of archaic organization and poor management in government, the value of the tax dollar is reduced to between 87 and 88 cents, a waste of 1 per cent of the total private income of the state is involved. This indicates in a striking manner the vital relation that exists between governmental efficiency and economic progress. For those who fashion budgets, particularly of the national and state governments, these are facts of the first magnitude.

Without doubt the economic, industrial and social conditions which exist within a governmental jurisdiction are intimately connected with, or directly influence, the budgetary requirements of the government. A period of inflation like that following the World War may unbalance or completely upset public budgets. Our national budget was tremendously expanded during the recent war, while our state and local budgets were kept down to the minimum. Then came the reaction when millions were quite easily cut off the national budget and long neglected needs had to be provided for in the state and local budgets. It appeared on the surface like national economy and local extravagance, and as such was played up by some of the leading politicians of the country. The economic background of this situation was either overlooked or purposely thrust aside. Likewise, a period of business depression, such as that of the early 90's, makes it difficult to collect the revenues needed to operate the government. At such a time, public attention centers on the income rather than on the expenditure side of the budget, which, for this country, is a rather unusual experience.

Industrial disputes and strikes directly affect the budgets of the governments under which they occur. A notable example of this is the recent British general strike and coal trade dispute. In making his budget speech before the House of Commons on April 11, 1927, the Chancellor of the Exchequer, Winston Churchill, discussed the strike, which had then come to an end after seven months' stoppage of coal production. He spoke of its effect as follows:

We now know with accuracy the injury which has been done, at any rate, to our finance. We meet this afternoon under the shadow of the disasters of last year. It is not the time to bewail the past; it is the time to pay the bill. It is not for me to apportion the blame; my task is only to apportion the burden. I cannot present myself before the Committee in the guise of an impartial judge; I am only the public executioner.

Mr. Churchill then went on to say that the effect of the general strike and coal stoppage on the previous year's budget was to decrease the revenue by about £17,500,000 and to increase the expenditures by about £14,500,000, or a total loss to the Exchequer of approximately £32,000,000. He estimated that this loss would be subject to some recoupments during the current and succeeding years, but in any event it would be, at least, £18,000,000. In explaining these figures, he made one striking statement to the effect that an examination of the trading results of 1926 showed the profits of that year were more than £150,000,000 below the anticipated amount; this great decrease, he estimated, meant a loss to the government in income and super-taxes for the current and future years of not less than £30,000,000. He summarized the situation in this masterly fashion:

But these figures, so serious and decisive when related to the annual budget and to the Exchequer finance, acquire an altogether different value and proportion when they are compared with the strength and resources of the nation. When we reflect on what happened last year, the prolonged paralysis of all our basic trades, the very large part of the population, about 3,500,000 wage earners and their families, living in one way or another—I purposely choose a noncontroversial phrase, living in one way or another—without discharging any productive function; when we reflect on the highly artificial and delicate character of our commerce and upon our dependence beyond that of any other state, ancient or modern, on world-wide credit and on foreign imports and foreign markets, the marvel is, not that we have suffered so much, but that we have not suffered more from last year's shocking breakdown in our island civilization.

Among American state governments, the movement of industries from one locality to another has a telling effect on their budgets. This is illustrated by the present situation in Massachusetts, from which state the textile and boot and shoe industries are gradually moving away. The southern and middle western states offer these industries opportunities for cheaper production because of surplus water power, unorganized labor, and proximity to raw materials. Governor Fuller of Massachusetts in his budget message to the legislature on January 26, 1927, said in explaining his recommendation for a state tax of \$12,000,000, "I wish that our tax rate was such as to attract new industries, but it appears to me to be rather



a question of retaining those we have. The question is being seriously asked—can manufacturing in Massachusetts be carried on profitably? The answer to a large degree rests with the legislature.”

The rapid social changes of the last decade or two have also had tremendous effect on governmental budgets. This is particularly true in the case of local governments. Large areas often change within a short space of time from agricultural to industrial, from rural to urban. Thousands of people move into these areas and the requirements of government are greatly augmented. Streets and sewer systems have to be built, adequate police and fire protection maintained, and the various conveniences of organized government more widely developed. These things add directly to the budgetary needs of the local government concerned.

When viewed from the larger standpoint of the states, or the national government, social changes are not without great influence on the budgets of these governments. As the populations of states change from agricultural to industrial, there is always a shift in the emphasis placed on the different state functions and consequently in their expenditure requirements. Regulatory, labor, and welfare functions are invariably expanded. Certain taxes, which were lucrative sources of revenue at one time, become more or less obsolete; and other taxes are devised to take their place. These changes likewise affect the expenditures and the income of the national government, although perhaps not in the same way or to the same extent that they do the state governments.

Passing mention should also be made of the fact that modern invention, which is a powerful agent in the transformation of social conditions, is either directly or indirectly responsible for much of the increased cost and added tax burden of government. The automobile, for example, has brought about in the United States alone within the last ten years the construction of thousands of miles of hard surfaced highways, the aggregate cost of which runs into billions of dollars. In order to meet the gigantic expenditures required for the building and upkeep of these highways, new taxes, such as the gasoline tax, have been devised. The airplane and the radio, which, as yet, have hardly emerged from the experimental stage, promise to work even greater changes in our social order than has the automobile. Government will then be faced with more intricate problems, larger expenditures, and heavier taxes. We dare not speculate on the conditions of the not far distant future when inventors, by the midwifery of experiment, shall have brought forth

from the matrix of nature many more of her secret forces and placed them in the clumsy hands of the unskilled multitude.

*Current Financial Demands of the Government.*—While the information which we have just discussed is quite valuable in budgeting, most of the figures that furnish the actual basis for the budget come directly from the financial operations of the government. They cover the various transactions relating to income and outgo for the current year and the previous year, that is, for the two years preceding the period to which the budget applies. In the national government and in nearly all state and local governments, it is necessary that two years be covered in order that one year may have been completed and the actual figures available at the time the budget is prepared. As for the current year, the actual figures for six, eight, or ten months of it may also be available. Its income and expenditures may be estimated for the remaining months, thus arriving at the financial condition at the beginning of the budget period. Without this information, the budget maker cannot forecast the future needs of the government. The reason is apparent. He has no dollars-and-cents basis to start from; he cannot prognosticate the financial requirements of a going organization without a rather precise idea of its current demands.

The budget maker should know not only the aggregate income of the government, but he should also know the general sources from which it is derived. He should know how much of it comes from revenues, how much from borrowings, and how much from the sale of properties, such as land. Revenues should be divided into main groups or classes, such as taxes, licenses, fees, fines, etc., if comparisons are to be made between the receipts of consecutive years as a basis of estimating for a future period. It must be borne in mind that comparisons, in this case, have practically no value except as between different kinds of revenues which are fairly constant. Comparisons for consecutive years mean little or nothing as between those sources of income which are susceptible of wide fluctuations.<sup>1</sup>

The budget maker should know the fund restrictions that are thrown around the different sources of income. Funds, except in the case of the general fund, usually operate to curtail the use of moneys. They constitute what may be regarded as separate pockets in which public moneys are kept. In other words, they prevent the complete pooling of the government's resources to meet its obligations. The government, for example, may have a considerable surplus at the beginning of the fiscal year, but this surplus may

<sup>1</sup> See below, pp. 315-320.

belong entirely to special funds and therefore cannot be used to meet general expenditures during the early part of the year.

The actual collections from different sources of income, particularly revenues, should be compared with the estimates in the budget for the same period. This will show to what extent the estimates have been realized. Such comparison may indicate defective estimating, poor collection, or changed conditions affecting income. In any case, the budget maker should know just what the situation is.

With reference to outgo, the budget maker should ascertain not only the aggregate expenditures of the government, but also the general character of such expenditures, the major purposes or functions for which they are made, the various spending agencies through which they pass, and the different activities and classes of objects for which they are spent. In determining the general character of outgo, expenditures should be divided into two groups, those for current purposes and those for capital outlays; or better still, they should be divided into three groups, those for current purposes, those for the acquisition of property, and those for the redemption of debt. If comparisons are to be made between expenditures for different years, only those for current purposes will be found to have very much significance. It will often be found helpful to group the expenditures according to the major purposes or functions of the government, unless the governmental organization has been departmentalized along functional lines, in which case the departments will represent the major functions. In any event, the expenditures should be classified according to departments and other spending agencies. This enables the budget maker to view the outgo of the government in relation to the agencies or officials who are responsible for making the expenditures. Beyond this point, the expenditures of each department or organization unit may be broken up into great detail, according to activities or working units, even to the extent of showing the myriads of objects which are bought. In this way cost analyses are produced, which are invaluable in many governmental services as an index to operating efficiency.<sup>1</sup>

If the budget maker is the chief executive or administrative officer of the government, he will be in a position to obtain the general picture of both income and expenditures which we have sketched above. In addition, he will be able to ascertain in the course of governmental operation the relation that exists between the inflow and the outgo of moneys. This is of especial significance in budgeting, particularly in the execution of the budget. If the rate of

<sup>1</sup> These are discussed subsequently in this chapter. See below, p. 170.

expenditure exceeds the rate of income for any considerable part of a fiscal year, temporary borrowing then becomes necessary in order to pay bills promptly, unless a considerable surplus has been built up in the treasury. Such borrowing entails interest charges which must be met in addition to the current expenses of the government; however, these charges may be carried over and put in the budget of the ensuing year. A tax calendar under which most of the government's revenues are collected late in the fiscal year brings about just this situation, leaving the government during the early part of the year without sufficient fund resources to meet its current bills. This illustrates the importance of synchronizing as far as possible the inflow and the outgo of the moneys required for the support of the government. Of course, as every administrator knows, the two cannot be made to balance exactly from day to day; for this reason there should be an excess of receipts over disbursements, the amount of which should depend upon the magnitude of expenditures or the probable daily turnover in governmental business.

It is possible to ascertain the exact condition of the treasury and of the various funds in it at the end of any day in the fiscal year. A consolidated fund balance sheet, properly set up, will furnish this information; it will not only show the resources and obligations of the government, but it will show the amount of the surplus or the deficit, as the case may be, distributed according to funds. If a general picture of the relation of income to expenditures for a given period is desired, it can be obtained from an operating statement, likewise set up according to funds. This information, especially as it relates to the current surplus or deficit, is valuable to the budget maker.

Obviously, most of the information on the financial operations of the government, which we have just outlined, can be obtained from the general accounts. Any well-organized central accounting office should be able to supply it. Some of the essential facts, however, must be gleaned from administrative experience in directing the work of the government. If work programs and allotments are used in carrying out the budget, some very significant information may be developed by means of a comparison between what has been planned and what has been realized. Valuable data may also be secured through special investigations and studies, both of expenditures and income, such as have been conducted by several state and local governments in connection with budgeting.

*Budgetary Requirements of the Government for the Future Period.*—In determining the budgetary requirements of the govern-



ment, the budget maker moves ahead of the facts and figures setting forth the financial condition and operations of the government for the current period and takes up the estimates of the future period which is to be covered by the budget. These estimates are deliberate *guesses* of the expenditure needs and the income returns of the government for the ensuing budget period. They are, however, guesses based upon current experience; at least, from the point of view of this experience, they are to be reviewed, revised, and finally proposed by the budget maker.

In our budgetary practice, particularly in the local units of government, we have thus far rated the estimates of income as somewhat secondary to those of expenditures. The expenditure estimates have had first consideration; after they have been practically determined in the aggregate, the estimates of income, more specifically of revenues, have been considered. The balancing of the budget has been effected by adjustments in the income of the government, mainly in the more flexible revenues, such as the general property tax. In this respect we have worked in the reverse order to the common European practice, which emphasizes the income side of the budget and adjusts the expenditure side of it. Our practice results in leaving to the very last many of the knotty problems of taxation which often arise in connection with an attempt to increase the means available for financing the budget. Indeed, the budget makers in some state and local governments altogether avoid these problems, leaving them to the legislative body to settle. This approach to public budgeting is unsatisfactory from every point of view. Income estimates are just as important as expenditure estimates in effective budgeting; the two should be accurately prepared and studied concurrently by the budget maker.

The total means of financing the budget, as we have already pointed out in the discussion of the budget document, consists of the surplus, if any, at the beginning of the budget period and the income during that period.<sup>1</sup> In estimating both the surplus and the anticipated income, fund restrictions must be taken into account, otherwise the budget maker will be unable properly to apply these resources in financing the budget. We have indicated the reason for this in the preceding section.

The anticipated income, as in the case of the current year's income, should be divided as between revenues, borrowings, and proceeds from the sales of properties which constitute capital assets. This distinction is necessary, since from the budgetary standpoint these

<sup>1</sup> See above, pp. 69-71.

groups are quite different. Revenues impose no financial liabilities on the future, while borrowings do. Moneys from the various sources of revenue are raised and spent, and that is the end of it so far as the budget is concerned. Borrowings, however, require the issuance of bonds, which must be redeemed (unless perpetual) at some future date; hence, provisions must be made in subsequent budgets for both redemption and interest charges. These charges are met out of revenues; in fact, all the costs of government are ultimately paid from revenues.

The handling of the proceeds from the sales of properties often constitutes something of a problem from the budgetary standpoint. Through such sales, the government presumably converts certain of its capital assets into cash. This cash is not to be viewed in the same light as a revenue, since it results from a reduction of the government's capital assets. If bonds are outstanding on the properties sold, they should be retired or provisions made for their retirement out of the receipts obtained from the sale. Any excess of such receipts may be used, as are bond funds, for the purchase of more property, or it may be regarded as general revenue. However, the weight of authority seems to be against using it at any time merely to meet current expenditures. Some economists have taken the stand that the receipts from the exploitation of natural resources, such as lands, timber, iron ore, coal, and petroleum (resources which may become exhausted), should be set up in a reserve fund to be used only for capital expenditures, on the ground that such receipts are of an abnormal or extraordinary nature and should not be relied on to meet the regular or operating expenditures of the government. For several years our national government has followed the policy of placing the proceeds from the sales of public lands in a special account to be used for reclamation projects. Other economists have gone even further and recommended the permanent conservation of moneys received from the sale of public lands and the like by setting them up as endowment funds. In fact, some of our state governments in disposing of their land grants from the national government have placed the proceeds in permanent endowment funds, the income of which is used largely or entirely for educational purposes.

It may be observed, however, that, as a source of income, proceeds from the sales of properties are almost negligible in most of our governmental units, particularly the local governments. The main sources of income are revenues and borrowings. Hence the

problem of estimating income for the budget centers largely around these two.

Revenues should be shown in the estimates according to their various sources. The smaller and less flexible sources, usually referred to in local governments as miscellaneous revenues, may be estimated quite accurately on the basis of current experience. Only slight changes are likely to occur in them from year to year. The major sources of revenue, however, are more difficult to estimate; their yield depends upon several variable factors, the most important of which are perhaps economic conditions. A resort to new sources or a disproportionate increase in the demands of old sources seldom fails to raise a number of vexatious questions. But the budget maker should not allow these questions to prevent the making of careful revenue estimates. Without such estimates, the income side of the budget will be very unstable.<sup>1</sup>

The use of borrowings in financing the budget is largely a matter of policy, which is determined more or less by necessity. It is usually within the authority of the budget maker to recommend the issuance of bonds, but the approval must come from the legislative body or the people, depending upon legal provisions. Long term bonds may be issued for both current and capital purposes. It is not advisable, however, as a matter of sound financial policy to issue them for current expenditures, except in real emergencies. This does not mean, on the other hand, that bonds should be issued for all capital expenditures. When a part, or perhaps the whole, of such expenditures may be met out of current revenues without overburdening the taxpayers of the government, bonds ought not to be issued. If the government is so large that certain of its capital expenditures become more or less constant year after year, like the building of school houses in a large city, these expenditures ought then to be financed from current revenues rather than from bonds. This prevents the piling up of indebtedness for those improvements which are, for all practical purposes, current requirements of the government.

The principal budgetary problem in contemplating the issuance of long term bonds is to spread the redemption charges of such bonds over a future period so as not to overburden the revenue system of the government. In order to do this, not only the current demands of the government, but also the existing debt redemption and interest charges must be taken into consideration. At the same time, it is advisable to make the period over which the redemption

<sup>1</sup> See below, pp. 314-326.

of the proposed bonds is spread as short as possible. Even the estimated life of an improvement, which is generally proposed as the standard for gauging the term of the bonds issued to finance such improvement, is usually too long. This estimated-life period should be considered only as setting a maximum time limit which the term of the bonds should not exceed. Within this limit, the ability of the government to meet its operating expenditures and to retire its outstanding bonds without undue strain on its revenue system should be the deciding factor in fixing the term of proposed bonds. At the same time, there are several other factors, perhaps of less import, which should also be considered. These relate to such things as the legal limit of indebtedness which is often fixed by state law for local governments, the effect of tax limits on the rate of debt retirement, the general condition of the government's credit, the state of the money market at the time the bonds are sold, and the prospective trend of interest on public loans.<sup>1</sup>

In preparing the income estimates, particularly the revenue estimates, for the budget, the budget maker should depend largely upon his staff agency, assisted by the central accounting office of the government. He may want to modify these estimates on the basis of facts and figures obtained from other sources, but the basic data should come from the accounting office. Where departmental or institutional revenues are withheld from the general treasury, as is often the case in state and local governments, the spending agency (*i.e.* the collecting agency) should be required to estimate such revenues for the budget. In calculating the spread of proposed bond issues, the central accounting office should assist the budget maker.

The estimates of proposed expenditures should be brought together along the same lines as we have suggested above for the current year's outgo.<sup>2</sup> The character grouping, that is, according to operating purposes, acquisition of property, and redemption of debt, is the important one in this case, since it supplies a basis by which comparisons can be roughly made between proposed expenditures and anticipated income.<sup>3</sup> As we have already pointed out, the total for operating purposes plus the total for debt redemption should

<sup>1</sup> These and other factors which enter into public borrowing are discussed at length in H. L. Lutz, *Public Finance*, Chapter XXV, especially pp. 519 ff.

<sup>2</sup> See above, p. 160.

<sup>3</sup> Sometimes the proposed expenditures are divided into two groups: optional and obligatory. This arrangement is supposed to aid the budget maker and the legislative body in passing on the expenditure requirements; however, it does not permit of any comparison with the main sources of anticipated income.



not exceed the total revenues estimated to be available during the budget period. This assumes, of course, that borrowings are to be applied only to the acquisition of properties, the soundness of which we have already referred to. In the next place, the funds from which proposed expenditures are to be made should be indicated and the aggregate expenditures from each fund compared with the estimated income of the same fund. Further classification of expenditure estimates may be made along functional lines, if it is found that the departmental arrangement of the government is not such as to serve as a substitute.

A general summarization of the expenditure estimates, such as the foregoing, is necessary in order that the budget maker may begin his review of the detailed estimates in the most satisfactory manner. By having the general picture before him, rough as it may be, he can see the relation between the estimated income and the proposed expenditures; furthermore, he can note the points at which the proposed expenditures appear to be excessive or out of line with the current trend. This is essential in beginning a study of the expenditure estimates and other detailed data of the different spending agencies.

In general, the expenditure estimates, covering the requirements for current purposes, are prepared by each organization unit of the government. These estimates usually include the anticipated requirements for the purchase or construction of property necessary to carry on the work of each organization unit. Such requirements may be developed through the medium of a long time financial program, in which case the property needs of the various organization units will be more or less correlated, or they may be merely what the head of the organization unit thinks is necessary in view of his own property needs. If the latter method is followed, the estimates may have little or no relation to the property requirements of other organization units of the government. The requirements for interest and redemption charges on outstanding indebtedness should be calculated for the budget maker by the governmental agency having charge of the retirement of bonds or the handling of sinking funds.

We will now take up the departmental estimates which supply the detailed expenditure figures and supporting information.

**Budgetary Information of a Detailed Nature.**—The detailed or itemized information needed in budgeting, particularly as such information relates to expenditure estimates, should reach the budget maker through the departments or other spending agencies of the

government. If the government maintains a central accounting office in which all general accounts are kept, this office should prepare the expenditure data with reference to the current year and the preceding year and supply them to the budget maker and to the departments. Not all governments, however, maintain such offices. Frequently, the departments keep their own general accounts, even though they duplicate the central system of accounts. Likewise, cost accounts are nearly always maintained by the departments; they are rarely provided for centrally. In any event, the departments should have, either from a central office or from their own records, complete expenditure data, properly classified and analyzed, as a basis for their estimates. This data should include cost figures whenever pertinent to the operations of the department.

The departmental information for budget making purposes is not as simple in character as one might imagine by looking over a set of expenditure estimates. It is much more than a series of items, with parallel columns opposite, showing figures for the preceding and the current years and estimates for the budget period. Back of these items, whatever they may be, is the departmental policy. The columnar figures should reflect the current work program and should be based on cost data. As we have indicated in the beginning of this chapter, detailed budgetary information comprehends (1) departmental policy, organization and work; (2) expenditure requirements based on current demands and expressed in terms of purchases and payments; and (3) cost data as a means of showing actual and probable performance. These types of budgetary information are discussed below in the order named.

*Departmental Policy, Organization and Work.*—Departmental policy may originate in either of two ways. It may spring from popular demands which are interpreted through legislative acts, or it may be the outgrowth of functional, organizational or work demands as seen by the department head. In other words, it may be developed either from without or from within the department. The departmental policies of local governments are often influenced and in a measure fashioned by state legislation. The same thing is true, but to a less degree, of state departments as affected by national legislation. The national government usually resorts to the indirect method of subsidy in its effort to influence state departmental policies. But disregarding the authority and influence of superior governments, we find, for example, in city government that the council, when stimulated by popular demand, enacts ordinances which more or less fashion the policies of the administrative departments. Aside

from the ordinances, the administrative officers, who interpret the legal provisions, also help to shape departmental policies. In the end these officers may be more powerful than the council in fixing the objects and purposes of the departments. This is frequently the case, especially where the scope of departmental work is rapidly changing or expanding.

But what has departmental policy to do with budgetary requirements? Indeed, much. Such requirements are not only affected but largely determined by it. This may be illustrated by taking a local school unit. To make the point even more apparent, let us assume the community has sprung up over night and that the school unit is newly organized and just getting under way for the first time. The head of the unit, that is, the school board or the superintendent, is immediately confronted with certain choices—policies in the making. Public education can be furnished on the basis of at least three plans, the original 8-4 plan, the recently popular 6-6 plan, or the current and more generally accepted 6-3-3 plan. Whichever plan is accepted, there is immediately a difference in the financial requirements of the school system. Either the 6-6 or the 6-3-3 plan is more expensive than the 8-4 plan, since the traditional twelve grades are split up as between elementary and high school on different bases. For small cities the 6-6 plan is regarded as being more economical from the standpoint of buildings than either of the others. Furthermore, with the adoption of the general plan, all questions of policy have not been settled. There are several others that influence school costs. Is the curriculum to provide for work of an industrial nature along with the literary work? What training is to be required in the case of the teachers? What is to be the average size of classes in the various grades? Are textbooks to be furnished without charge to the students? What types of school buildings are to be constructed? From a budgetary standpoint, what can be more important than the decisions that are made with reference to these questions?

Not only policy but organization influences the cost of carrying on departmental work. A department may consist of a jumble of activities, without order and without relation to each other, resulting in confusion, waste and lack of accomplishment. Again, a department may be fairly well organized owing to the fact that its main subfunctions are set up as bureaus or divisions, but nevertheless it may be uneconomical due to overlapping of activities, extraneous functions, too many employees, or lack of business methods. Adding functions to a department often causes overlapping

unless the existing organization is overhauled so that the new functions may be integrated with it. Sometimes work is added to one department which ought to be performed by another, thus bringing about duplication between the departments. The more general abuse, particularly in state governments, grows out of the creation of a number of independent governmental agencies to carry on related activities. Several states have increased the number of their administrative agencies from time to time until they have a score or more performing functions which should be combined and integrated in one major department of the government. This situation has largely brought about the movement for administrative reorganization and consolidation in order to integrate departmental work and thus reduce the operating costs of state governments.

Emphasis on certain types of work performed by a department also has a direct bearing on the cost. For example, a state department of agriculture may undertake to eradicate bovine tuberculosis within the state as a public health measure. With the aid of the national government, it may make this work its principal task for a period of five or ten years. If the disease is widespread in the state, it may spend hundreds of thousands of dollars. Had the department directed its efforts toward other phases of its work, the cost for the period might have been very much less. Another illustration is furnished by local health service. A city health department may place emphasis on inspectional work rather than on a more important service, such as, prevention of communicable diseases, and thus spend the bulk of its funds for something that is relatively unproductive in community health.

*Expenditure Requirements in Terms of Purchases and Payments.*  
—Expenditure requirements are commonly expressed in terms of things to be purchased or payments to be made by the departments or other spending agencies. This, of course, is necessary, since the initial step in any governmental work is the acquisition of certain things, such as personal services, contractual services, supplies, materials, equipment, and so on. Otherwise the work could not be carried on. But to stop at this point in supplying information to the budget maker is to give him little or no data on how the things bought are actually used or what is really accomplished by the departmental work. It gives the impression that the government exists solely for the purpose of buying things, when as a matter of fact the things are merely the means and not the end.

Just how the emphasis came to be placed on acquisition rather than use may be explained in this way. The general accounting



systems of all our governments make the transactions arising from purchases and payments (acquisition) the basis of financial control and reporting. In other words, what is acquired is deemed to be the important thing, not the use that is made of it. Budgetary information from the general accounts is, therefore, largely limited to what the government buys. It rests on a very narrow base. As a means of arriving at departmental requirements, it is inadequate; at least, it is unconvincing. What is needed is a much broader base which takes into account not only the things bought by the government but also the way these things are used, that is, the performance. This means the employment of cost accounting in connection with all operating agencies of the government.

*Cost Data as an Aid in Making Expenditure Estimates.*—It is not enough for budgeting purposes, as we have just indicated, to show merely the quantities of services, supplies, materials, equipment, etc., needed in carrying on the work of a department and their estimated costs. Nor is it sufficient to state these quantities and costs in relation to those of the current or the preceding year. If the budget maker is to be furnished with real information, he must know something of how the services, supplies, materials, equipment, and so on, are to be applied to the departmental work in terms of production, operation, or service. This gets down to bed rock, where comparisons that mean something can be made as between proposed and current performances. Otherwise, any decision about the estimated requirements must be based upon analyses or itemizations which are largely superficial, except from the standpoint of indicating the things that should be bought and their probable cost.

The application of cost accounting to the various activities of government involves the working out of analytical methods and measurement units to a much larger extent than has yet been attempted. But we have already gone far enough to indicate the general direction that these should take.<sup>1</sup>

The use of cost data in budgeting was attempted some years ago in New York City. A so-called "cost data" budget was prepared for the Borough of Richmond in the fall of 1912 at the request of George Cromwell, who was then president of that borough. It applied to three public works functions, namely, street cleaning, care of sewers, and maintenance of streets, all of which were under the administrative direction of the borough president. The appropriations were made in lump sum amounts to each of the three divisions of work. The amounts were arrived at in each case through a work

<sup>1</sup> See below, pp. 527-529.

program based on clearly defined activities and calculated by unit costs for previous years. A continuous field survey of the activities was carried on by a staff of inspectors working under the board of estimate and apportionment. The information which this staff gathered was used in reporting on the working efficiency. The whole experiment, of course, depended on adequate cost records, which were never fully worked out or installed. A new borough president took office at the beginning of 1914 who was unsympathetic to the plan. He died the following year and his successor in office recommended its abandonment. During this time the central authorities had gradually lost interest in the plan, so it was discontinued at the end of 1915. In its general conception the plan was sound enough, but there were certain defects in the procedure which we shall point out later.<sup>1</sup>

So far as the writer knows, no other attempt has been made in this country to hitch up definitely with the budget the record of departmental performance as expressed through cost data. The idea is certainly worth more than one experiment, and that one carried on over a very short period in a rather half-hearted manner. Such unit costs as now appear in state and local budgets relate to the purchase of commodities rather than to performance. Some of these budgets place considerable emphasis on per capita costs, particularly with reference to institutional expenditures. In certain institutions, for example, hospitals for the insane, the inmate population has a direct relation to the expenditures. Population also has an important relation to the expenditures for education. But there are a number of other functions, such as those of a regulatory and developmental character, the expenditures of which have no direct relation to population. At best, per capita costs are only general figures which may be roughly indicative of the services rendered by certain functions of the government. For a real understanding of the situation the budget maker must look to facts and figures relating to actual performance.

**The Long Time Financial Program.**—The budget, as we have already explained, extends over a fixed period, namely, a year or two years. It is inseparably connected with the governmental performances and obligations of past years; it is merely another link in the chain of the government's financial experience. In like manner, it is related to the financial needs of the immediate future and should be formulated in anticipation of these needs. Any budget

<sup>1</sup> See below, pp. 270, 460-462. For a detailed description of the plan see "The New York City Budget," *Municipal Research*, No. 88, August 1917, pp. 112-127.

maker who is content to look ahead only as far as the annual or biennial budget extends is indeed shortsighted. Financial policies, other than the most temporary ones, cannot be satisfactorily formulated on any such basis.

Long time financial planning is most effective in the case of proposed governmental improvements. It is the means of arranging such improvements in the order of their importance or the urgency of their completion and of distributing their total cost in such manner as not to overburden the revenue system of the government in paying for them.<sup>1</sup> Furthermore, a long time program is designed to obviate avoidable borrowings for improvements. It aims more or less to stabilize the financial demands resulting principally from capital expenditures. In the coördination of improvement costs with income, all governmental expenditures may be brought into the program by anticipating not only the capital requirements but also the operating expenses and debt service in aggregate amounts. This can be done without great difficulty for a period of five or ten years, particularly in the case of local governments. Some cities have already formulated financial programs extending over much longer periods.

Several commercial concerns with widespread interests have found long time planning, or forecasting as they call it, essential to the proper development of their businesses. The most notable example is the American Telephone and Telegraph Company. This company prepares a forecast of its income and expenditures for a period of five years, adjusts and extends this forecast each year, and budgets its activities accordingly. Naturally adjustments must be made as experience varies from the forecast, but such adjustments do not destroy the effectiveness of the budget. By means of the five year forecast, which it is able to make with great accuracy on account of the constant increase of its business, the company is enabled to plan its finances, manufacturing schedules, and purchases and labor requirements for long periods in advance. Certain difficulties are, of course, encountered in making such a forecast, but these are not insuperable. Population growth and the demand for increased telephone service are fairly constant elements. Business conditions, however, vary widely and are therefore not so easily forecast; but it has been found that they move in cycles or wave-like form, with periods alternating between prosperity and depression.<sup>2</sup>

<sup>1</sup>Or it may be related to conditions of employment with a view to reducing the hazards of industrial panics.

<sup>2</sup>See Henry Bruère and Arthur Lazarus, *Applied Budgeting*, 1926, pp. 62-66.

Long time financial programs for governments are prepared in much the same manner as annual or biennial budgets are formulated. Of this we shall speak in a subsequent chapter.<sup>1</sup> However, there are certain difficulties in the way of long time planning which we should mention here. Such planning is more effective for local governments than for the national or state governments. In planning for local governments, one does not face the problems of extended areas, varying conditions, and widely scattered services, as in the case of the other governments. Of course, some of the small states are no more difficult to plan for in this respect than many of the large local governments. Other difficulties may arise due to the passage of new legislation, changes in national, state and local policies, fluctuations in economic conditions, and the rapid influx of population in certain areas. While these things may not be anticipated in advance, they are seldom of such scope and effect as completely to change the forecast of financial requirements. Even if such should be the case, long time planning would still be worth doing. No carefully prepared program for meeting the future needs of the government, however altered by subsequent events, is worthless.

Long time planning has grown out of budgeting. Not until governments began to budget their financial requirements did it become apparent that more extended planning was necessary, particularly in the matter of improvement programs. Local units of government were the first to undertake the preparation of long time plans, and this was only a decade ago. It was at that time that the New York Bureau of Municipal Research urged the desirability of formulating such plans and went so far as to prepare a five year financial program for Newark, New Jersey, in connection with a survey of the city government which it made in 1919. This was perhaps the first complete long time program prepared for any city in the country. It included both current and capital expenditures. Had the city authorities followed this program, they would have been able to provide for the normal expenditures of the city government and at the same time to have kept the tax rate practically uniform during the five year period.

In 1922 a citizens' committee of St. Louis prepared an improvement program for the city government, excluding schools and transportation, which called for the expenditure over ten years of about \$88,000,000 from bond issues. This program, with the exception of a million dollars for an armory, was adopted by the voters early in 1923. About the same time Kalamazoo, Michigan, and Blue-

<sup>1</sup> See below, pp. 352-356.



field, West Virginia, adopted five year improvement programs which were duly executed by the managers of the respective cities. In 1925, the mayor of Detroit, Michigan, appointed a committee of citizens which prepared, with the assistance of a special staff, a ten year program for the city government. This program provided for all capital expenditures, including schools and rapid transit, and also brought into the picture all current expenditures. No action was taken on it by the city authorities. It was revised in 1927 by an enlarged committee and again submitted as an eight year program. Early in 1929, the mayor revamped this program and submitted it to the city council as a "ten year capital cost program," for legislative examination and approval.<sup>1</sup> Other cities, notably Washington, D. C., and Seattle, Washington, are in the course of preparing financial programs extending over five or ten years. Recent proposals have been made for the formulation of such programs for Cleveland, Kansas City, Los Angeles, and San Francisco.

Many of the long time improvement programs of city governments have been strictly financial in character and have overlooked or not made proper use of city planning. This was unfortunate since city planning is indispensable in laying out the major physical improvements and facilities of cities. But specialists in finance have not been wholly to blame for this situation. City planners have until quite recently failed to emphasize the financial aspects of their work; they have drawn wonderful plans, but made no proposals for financing them. Naturally their plans could not be realized until adequate financing was available. This was clearly brought out in the city plan of Cincinnati, Ohio, which was completed in 1925. It is noteworthy as the first plan to be officially adopted by a large city. It covers a period of fifty years and is used by the city authorities as the basis of an annual program of improvements. In this program the improvement needs of the city, county and school district are coördinated and their construction projects set down according to relative importance. The program for 1928 called for an expenditure of over \$10,000,000, a large part of which was financed by the sale of bonds. In December 1927, the voters of Dallas, Texas, adopted a ten year improvement program based upon a comprehensive city plan. This program calls for the expenditure of over

<sup>1</sup> These programs are described in *Public Business*, published by the Detroit Bureau of Governmental Research, June 15, 1925 and April 15, 1927. See also C. E. Rightor, "How Detroit's Ten Year Financial Program was Prepared," *National Municipal Review*, February, 1926, pp. 108ff. Also message of Mayor John C. Lodge to the Common Council of Detroit, January 15, 1929, setting forth a ten year capital program for the city government.

\$23,000,000 to be financed through the issuance of bonds, the levying of special assessments, and from current taxes. An improvement program covering twenty-two years is in the course of preparation for Trenton, New Jersey, and one extending over fifty years for White Plains, New York. Both of these programs are based on comprehensive city plans.

Undoubtedly the soundest basis for any municipal improvement program is a city plan, which is broad enough to take into consideration social and economic conditions, population demands, industrial and commercial relations, transportation, housing, and zoning. In nearly every small city, there are "booster clubs" of one sort or another which insist that "the town must be put on the map" regardless of the cost. Destiny may not have marked it to become a great center of industry and trade. In an effort to follow the advice of those who are long on enthusiasm and short of facts, the city may overburden its potential resources or become bankrupt in future years. A carefully prepared city plan with a definite financial program for development, if adopted and adhered to, will prevent such a situation from arising.

During 1928, a ten year capital improvement program was prepared by the board of county auditors for Wayne County, Michigan, which surrounds the city of Detroit. This program, calling for a total expenditure of several million dollars, was adopted by the voters of the county on November 6, 1928.<sup>1</sup> This is the first county government in the United States to adopt a comprehensive long time improvement program. Undoubtedly, other counties, especially those surrounding or in the vicinity of urban centers, will find it advisable to follow this example.

State governments are beginning to formulate long time programs, particularly with reference to improvements. Perhaps the most extensive program of this kind yet undertaken by any state is that of New York. It is financed both by bonds and current revenues. In 1923 a \$50,000,000 bond issue was voted to carry out a four year program of institutional development. Another issue of \$100,000,000 was authorized in 1925 to be spent over a period of ten years for permanent improvements, such as office buildings, institutions, armories, and parks. Besides these projects, between \$35,000,000 and \$40,000,000 of highway improvements are made each

<sup>1</sup> See "Report on Ten Year Capital Improvement Program for Wayne County," as recommended by the Board of Wayne County Auditors, Detroit, September 26, 1928; also "Resolution and Ordinance of Board of Supervisors for the County of Wayne," October 3, 1928.

year out of current revenues.<sup>1</sup> Several other states have formulated programs with reference to special classes of improvements. Massachusetts has a building program for state institutions which is being carried forward each year through the budget. A number of states have extensive road construction programs, some of which forecast developments in this line for five or ten years. Governor Young of California has proposed in his budget for 1929-1931, which he recently submitted to the 1929 session of the legislature, a ten year building program for state institutions and schools. This program is based on a careful survey of the institutional housing needs. It is supported by graphs showing the population trends of the various institutions projected over the ten year period. In a supporting statement, Governor Young has set forth certain facts which point to the great need for the immediate adoption of this program by the legislature. Other states propose to plan park development by means of a long time program. Conservation and reclamation are also matters which state governments may anticipate over long periods.

Long time planning can also be made a valuable aid to budgeting in the national government. The Secretary of the Navy announced in January, 1928, that he had prepared a twenty year program for naval expansion; he presented to Congress the first five years of this program, calling for a total expenditure of \$740,000,000. The aggregate cost of the entire program, he indicated, would be \$2,580,000,000.<sup>2</sup> Such a program, whether approved by Congress or not, is a valuable means of letting the people of the country know what the ultimate plans of the administration are for naval construction and replacement. Popular approval or disapproval can then be registered in no unmistakable manner. Internal improvements for flood control, reclamation and drainage may be planned with advantage on the basis of a long time program. Something has already been accomplished in this direction. A ten year program of forest research and development, including the maintenance of experiment stations in various regions and involving a maximum annual expenditure of \$3,500,000, was authorized by an act of Congress passed in 1928. A federal building program has also been projected.

<sup>1</sup> See *Progress of Public Improvements*, a report to the people of the state of New York by Governor Alfred E. Smith, October, 1927.

<sup>2</sup> See *The New York Times*, January 13, 1928.

## CHAPTER VII

### CLASSIFICATION OF EXPENDITURES AND INCOME

HAVING discussed the nature and sources of budgetary information, we next come to the classification of this information in so far as it relates to expenditures and income. The systematic grouping of financial data is essential to the process of budgeting. Classification aids in compiling and reviewing the figures for the budget, it provides uniformity in the presentation of budgetary information, and it lessens the labor of making the comparisons which are necessary to accurate financial planning. Furthermore, it assists the handmaid of budgeting, namely, accounting, in certain ways: it facilitates the recording of transactions in the accounts, it makes possible the orderly arrangement of financial information, and it aids in reporting on the operations of the government so they will be intelligible to the public.

Regardless of what form or type of classification is used, it should be such as clearly to reveal the essential facts regarding the nature of expenditures and the sources of income. Classification should never be carried to the extent of obscuring the fundamental significance of the facts which are classified. The substance of these facts is always more important than their arrangement.

**The Development of Classification.**—The systematic classification of governmental expenditures and income is a recent achievement in this country. Perhaps the first comprehensive attempt at any such classification was that made by the United States Bureau of the Census when it began the collection and publication of the *Financial Statistics of Cities* under an act of Congress which was passed March 6, 1902. Under this classification, expenditures were grouped on both functional and character bases and income (revenue) was arranged according to sources. The same types of classification were applied to the *Financial Statistics of States* when this series was started by the Bureau of the Census in 1915. We shall refer later to this classification.

The next important development in classification came as a result of the work of the New York Bureau of Municipal Research in connection with the installation of budgetary procedure in New York City. This work began in the city department of health in 1908,



and during the subsequent five or six years practically all the departments and agencies of the city government were studied. The proposals for classification were confined to expenditures. At first, the emphasis was placed on a functional classification within departments supplemented by an object classification. Within a short time, however, the emphasis was shifted to the object basis. The reason for this, as later explained, was that "classification by object lends itself to standardization of accounting procedure, while grouping on the basis of function seems to increase the difficulties, inasmuch as the functions must differ in every department." Accountants naturally preferred the form of classification that promised greater uniformity and order in the accounts. It was possible to standardize the classification by objects, but not the functional one. Besides, appropriations by functions would leave the door open for the misuse of funds, unless supported by an intricate system of accounts; while appropriations by objects would apparently check this practice, which was regarded as one of the most trying evils of that period. For these reasons, the functional classification was gradually subordinated and the classification by objects became the primary one in all the city departments by 1912. At this point further efforts toward improvement consisted in the "development of a uniform classification of expenditures [by objects], with the chief aim of voucher or payroll audit, central control over purchase and contract relations." The main groups of this classification for New York City were established by 1913; practically no change has been made in them since that time.

In 1911, President Taft's Commission on Economy and Efficiency, with the aid of specialists from the various departments of the national government, set about the task of making a classification by objects of the federal expenditures.<sup>1</sup> The Commission found that the accounting information produced in one department or bureau of the federal service bore little or no relation to that produced in another. Even within a single bureau the same accounting term often had a number of meanings, so there was a "confusion of tongues" which made intelligent reporting and supervision almost impossible. A uniform classification, the Commission was convinced, would be useful to every branch of the service as a means of reducing the cost of keeping accounts and as an aid to reporting in summary and comparable form. It therefore undertook the development of a classification of expenditures in terms of things purchased. The informa-

<sup>1</sup> See *Outline of Classification of Objects of Government Expenditure*, Circular No. 19, President's Commission on Economy and Efficiency, Washington, 1911.

tion submitted to Congress for the 1912 appropriations was used as the basis for obtaining the scheme of analysis by objects. The classification produced was quite comprehensive. Every service, object, or item purchased or paid for by the national government at that time was classified and coded. An enumeration of the coded items alone filled more than one hundred closely printed octavo pages. This task would no doubt have been impossible without the aid of about two hundred specialists from the various services of the national government. We shall have occasion to refer again to this classification in the course of this chapter.

When Frederick A. Cleveland returned in 1913 to the New York Bureau of Municipal Research from his work as chairman of Taft's Economy and Efficiency Commission, he projected a series of research studies in government, one of which was a "standard classification of expenditures." This work was intended to develop further the classification scheme prepared under the direction of the Taft Commission. It was to include state and local, as well as national expenditures, utilizing the experience of the Bureau in connection with New York City. A very ambitious scheme of classification by objects was projected, which was to include practically everything that either public or private organizations might buy. A basis for the major groups different from that outlined by the Taft Commission was proposed.<sup>1</sup> After about three years of work by a staff consisting of several persons, the task was still incomplete and was discontinued on account of lack of funds. At that time the classification filled several typewritten volumes and bade fair to rival in size Webster's International Dictionary. The ultimate purpose of the classification, had it been finished, was the standardization of specifications for all purchases. In this direction it held considerable promise, but as a classification for accounting and budgeting purposes it was undoubtedly inferior to the one already outlined by the Taft Commission. There were, however, other phases of the

<sup>1</sup> The major groups, or main classes, as tentatively outlined, were as follows: 0000, services; 1000, animals; 2000, plants; 3000, substances in bulk; 4000, formed parts, attachments and accessories; 5000, hand tools, utensils, and implements; 6000, equipment for obtaining and communicating information, ideas, and concepts (instruments of thought and expression); 7000, equipment for working upon and with substances and articles (machine tools); 8000, equipment for the production of heat, light, and power, and for refrigeration, ventilation and pumping (plant); 9000, coverings, supports, containers, enclosures, and sites; X000, money and credit; E000, special and miscellaneous, including sets, suits, and complements of related articles. A cross-sectional arrangement of the foregoing groups threw several of them into two classes: one was "things consumed or converted when used" (materials and supplies); the other was "things not consumed or converted when used" (equipment, structures and land).

Bureau's effort at classification which bore fruit for both governmental accountants and budgeteers. Classifications of public expenditures and income by funds, by character, and by sources were completed and the results were largely incorporated in Francis Oakey's *Principles of Government Accounting and Reporting*. A general classification of governmental functions was also partially completed. This classification was sufficiently developed, however, to make it of use in connection with the preparation of expenditure analyses in accounting.

The movement in state and local governments toward budgeting and modernized accounting made necessary the adoption of expenditure and income classifications. In 1912 Philadelphia used a classification in the preparation of the city budget which was an adaptation of the one recommended by the Taft Commission for the national government. By 1914, an expenditure classification by objects similar to the one used by New York City, had been adopted by several smaller city governments, notably, Springfield, Massachusetts, and Dayton, Ohio. About this time the state budget commissioner of Ohio promulgated an object classification of expenditures, closely resembling that of New York City, for use in the government of that state. Other state and local governments followed in rapid succession. The expenditure classifications adopted were, in most instances, combinations or copies of those already in use. They usually resembled more closely the classification of New York City than that proposed by the Taft Commission.

Nearly every state or city government now uses an expenditure classification of some type in arranging its financial data for purposes of reporting and budgeting. Many county governments also make use of expenditure classifications. Income, or revenue, classifications are likewise widely used, but they are not generally as well developed as those relating to outgo. All in all, one might expect in the near future to have comparable expenditure and income statistics of a much more refined type than those produced at the present time by the United States Bureau of the Census. There is, however, at least one serious difficulty in the way. The adopted classifications generally differ from state to state; while they may be basically the same, they have important variations that render the compiled data incomparable. The same thing is true of the classifications used by local governments, except where a state has adopted a uniform classification for all such governments within its jurisdiction. However, this step does not improve the situation as be-

tween states. The solution lies in the general acceptance by state and local governments alike of a scheme of classifications for both expenditures and income. Since the financial transactions of these governments differ mainly in degree rather than in kind, this scheme of classifications can be uniformly used so long as it is flexible. The task now before us is to outline such a scheme.

**Classification of Expenditures.**—Five bases for the classification of expenditures are generally recognized. These are as follows: (1) functions, (2) organization units, (3) objects, (4) character, and (5) funds. A sixth base, namely, by appropriations, is necessary from the accounting standpoint if the legislative body is to be informed on how its authorizations have been carried out. Since both the form and itemization of appropriations vary widely even within the same government unit, there can be no uniformity to a classification by appropriation items.<sup>1</sup> If appropriations are made in lump sum amounts, they will usually correspond rather closely to organization units; if they are made in detail, they will resemble either the character or the object groups. They may even follow the fund groups, as in the case of certain special funds. Lacking uniformity, as it does, the classification by appropriations is not a proper vehicle, even when the appropriations are made in detail, for presenting expenditure information in the budget document. Only in connection with the accounting and reporting, when the unencumbered or the unexpended balance of each appropriation is ascertained, is this classification valuable. We may, therefore, dismiss it without further comment at this point. The other classifications are discussed below.

*Classification by Functions.*—As we know, the work of government is made up of a number of major functions and these in turn consist of several minor functions. The latter approach the various activities and operations through which the governmental work is performed. Nearly every government, national, state and local, classifies its major functions in one way or another, but these groupings generally lack uniformity. Let us note a few of the typical functional classifications.

Probably the best known functional classification is the one applied by the United States Bureau of the Census in the compilation of the financial statistics of cities and states. As we have explained above, this classification was devised about a quarter of a century ago for use in gathering the *Financial Statistics of Cities*. It was

<sup>1</sup> See above, pp. 127-135.



carefully prepared at that time in view of the statistical requirements of the Bureau and its essential features have not since been modified. The following are the main headings of this classification: (1) general government, (2) protection to persons and property, (3) conservation of health, (4) sanitation or promotion of cleanliness, (5) highways, (6) charities, hospitals and corrections, (7) education, (8) recreation, (9) miscellaneous, (10) public service enterprises, and (11) interest and debt payments. The governmental expenditures are grouped under these eleven general headings mainly by organization units. There is considerable overlapping between some of the groups, so that the expenditures of different organization units must, in some cases, be more or less arbitrarily put in one group or another in making the distribution. The classification is not, strictly speaking, a functional one; some groups indicate purpose or object. It includes legislative and judicial expenditures, together with overhead administrative costs, in the "general government" group. Its "miscellaneous" group is a catch-all, intended for the items which cannot be conveniently allocated to the other groups. When the Bureau began in 1915 to compile the *Financial Statistics of States*, it used the same classification, slightly modified. A new group, called "development and conservation of natural resources," was inserted as group three, and groups three and four as applied to cities were combined under the heading "conservation of health and sanitation." Otherwise the classification was practically the same for both states and cities.

In the last analysis, this classification of the Bureau of the Census is little more than a convenient arrangement for the purpose of gathering state and municipal statistics. Nevertheless, it is the means of compiling the most authoritative statistics, in fact, the only comparable data that we have with respect of the costs of city and state governments. Except in a few instances, this classification is not ordinarily used in arranging the accounting and budgetary information of states and cities; it is merely followed in compiling the expenditure figures for the Bureau of the Census.

There are several types of functional classifications other than the one we have just discussed. A functional classification is used in the preparation of the national budget, which divides the governmental functions into three groups, namely, general, military, and civil. An additional group, called "nonfunctional expenditures," includes fixed debt charges, trust funds, losses, refunds, and contingencies. Evidently, this classification, although very general, is

not applicable to state and local governments. Several state governments apply functional classifications of one type or another in grouping budgetary data. Some of these classifications are based on the traditional divisions of governments, namely, the executive, the legislative, and the judicial; others are more elaborate, especially in the analysis of the administrative functions. Generally speaking, these classifications provide a convenient method of grouping the expenditures of a large number of governmental agencies under a few headings. Maryland and California furnish very good examples of such classifications.

The Maryland budget amendment requires the expenditure side of the budget to be segregated according to the executive, the legislative, and the judicial functions of the state government. Aside from placing the legislature and the courts in groups apart from the executive agencies, any line that may be drawn separating the government into three such divisions must be largely arbitrary. This is due to the fact that many of the administrative departments and agencies perform functions which are of a legislative or a judicial character. A classification on this basis is therefore not very satisfactory.

The functional classification used in the California state budget groups the expenditures under the following general heads: (1) legislative, (2) judicial, (3) executive, (4) administrative, (5) benevolent, (6) conservation and parks, (7) correctional, (8) curative, (9) defensive, (10) developmental, (11) educational, (12) penal, and (13) regulative. The last nine groups are really subdivisions of the administrative group. In classifying the expenditures under this arrangement, each organization unit is placed under the group to which the major part of its work relates, so that the classification is not along strictly functional lines. The most that can be claimed for such a classification is that it gives the public a general idea of what the state government is spending its money for. It seems advisable, however, to group expenditures in this manner only when the state government has numerous administrative agencies. New York, for example, used a similar classification before the reorganization of the state administration, when there were more than 180 administrative agencies. But since the reorganization into eighteen administrative departments, the budget making authority has discarded the functional classification and now groups the expenditures according to the major departments. California will probably do the same thing when its administrative organiza-

tion becomes more integrated.<sup>1</sup> Such has been the practice in several other states.

City authorities have generally preferred organizational to functional groupings in setting forth the municipal expenditures in their financial reports and budgets. This is due to the fact that most of the cities have rather compact organizations, the administrative work being systematically grouped in a few large departments. The necessity therefore for combining the expenditures of numerous departments and agencies under a few headings does not exist, as in the case of many of the state governments. Only a few cities still retain the ponderous administrative organizations of a few years ago.

There is undoubtedly a need for a standard classification of governmental functions, such as has not yet been devised. A classification of this type would be valuable in bringing out clearly the defects in existing governmental organization; it would aid in producing financial information from the accounts, particularly the cost accounts; and it would make it possible to secure expenditure data that would be comparable as between the same functions or services of different governmental units. About 1915, the New York Bureau of Municipal Research attempted to devise such a classification, but the work was not carried to completion.<sup>2</sup> However, the functions of government were divided into three groups, viz., controlling, proprietary, and public service. The immediate objects of each of these groups, in the order named, were (1) the determination and direction of the services to be rendered, of the means and instruments to be used in rendering them, and of the manner of acquisition, use and disposal of such instruments; (2) the making available of the means and instruments, consisting of funds, personnel, commodities and properties, whereby such services might be rendered; and (3) the rendering of services directly to or for the public. The general headings of the classification were as follows:

#### I FUNCTIONS OF CONTROLLING GROUP

- 1 Electoral control
- 2 Representative control
- 3 Executive control
- 4 Staff information and advice

<sup>1</sup> This is what really happened under the administrative reorganization which took place in 1927. The California budget for 1929-1931, submitted by Governor Young to the legislature in January, 1929, grouped the expenditures for administrative purposes largely by major departments.

<sup>2</sup> See above, pp. 179-180.

## II FUNCTIONS OF PROPRIETARY GROUP

- 1 Provision of funds
- 2 Provision of subordinate personnel
- 3 Provision of material

## III FUNCTIONS OF PUBLIC SERVICE GROUP

- 1 Administration of justice
  - General adjudication of controversies
  - Adjudication of controversies between governmental agencies and their representatives, officers and electors
  - Adjudication of controversies in civil actions between governmental agencies and private or quasi private persons
  - Adjudication of controversies in criminal actions between governmental agencies and private persons
  - Adjudication of controversies between private or quasi private persons
- 2 Protection of persons and property
  - Protection from violence, robbery and breach of peace
  - Protection from fire
  - Protection from unsafe structures and machinery
  - Protection from loss of life on highways
  - Protection from loss of life on water
  - Protection from floods, tides and other disasters
  - Protection from wild animals
  - Protection from exploitation in business and trade
- 3 Protection of public morals
  - Prevention of gambling
  - Prevention of immorality
  - Prevention of drunkenness
  - Regulation and solemnization of marriage
  - Prevention of cruelty to animals
- 4 Preservation of health
  - Protection from diseases
  - Protection from harmful and impure water, food and drugs
  - Protection from unhealthful housing conditions
  - Protection from unhealthful working conditions
  - Protection from nuisances injurious to health
  - Special preservation of health of children
  - Protection from practice of medical professions in a manner harmful to health
  - Provision of sanitary convenience
  - Promotion of medical professions
- 5 Promotion of education and recreation
  - Promotion of education
  - Promotion of recreation
  - Promotion of science
  - Promotion of the fine arts
  - Promotion of history
  - Preservation of places of scenic interest



- 6 Care of special classes
  - Care and education of defectives
  - Care and maintenance of delinquents
  - Care and maintenance of dependents
- 7 Promotion of economic welfare
  - General promotion of economic welfare
  - Promotion of agriculture, forestry and animal industry
  - Promotion of transportation
  - Promotion of banking and exchange
  - Promotion of manufacturing
  - Promotion of trading
  - Promotion of mining
  - Promotion of communication facilities
  - Promotion of labor
  - Production and distribution of commodities
- 8 Defense of nation and state
  - Protection from foreign invasion
  - Protection from insurrection
  - Protection from breaches of neutrality

The most interesting part of the foregoing classification was the public service group. This group was divided into main classes and subclasses as indicated above. Most of these subclasses were divided into subordinate groups, which in many instances were further subdivided. In the last analysis, the small subdivisions approached or practically coincided with the activities of government. Had the classification been fully developed at this final point, it would no doubt have been valuable in connection with cost accounting. Mr. Oakey has suggested how the classification, as it stands, might be used as the primary basis in general accounting for the development of expenditure analysis by functions.<sup>1</sup>

Functional classification has been valuable, in fact, practically indispensable, in the preparation of plans for the reorganization and integration of governmental administration. In nearly all states and cities, the administrative agencies were created in an unsystematic manner until there were literally scores of these agencies, many of them performing similar duties, many of them overlapping in their work. A study of their activities, an analysis of their functions, showed that most of these agencies could be abolished and their work grouped under a few orderly departments. By this method, many city governments have been completely reorganized so that their administrative functions are now carried on by five or six large departments, such as, finance, safety, law, public works, public welfare, and education. Several state governments have also been recon-

<sup>1</sup> See Francis Oakey, *Principles of Governmental Accounting and Reporting*, 1921, pp. 367-373.

structed by this process until their administrative functions are now handled by less than a score of departments, the more important of which are finance, agriculture, public works, labor, conservation, health, public welfare, trade and commerce, and education.

Hence modern administrative organization is built along functional lines. In the main the departments represent major functions; the bureaus and divisions, minor or subordinate functions. That is, the organization units, when properly set up, parallel the functions of the government. If, under such arrangement, the expenditure information is presented in the budget on an organizational basis, it will be virtually in the same form as though it were presented on a functional basis. But this will not be the case under an improperly or haphazardly organized government. Then the expenditure information may, with advantage, be presented in the budget according to functional headings. Of course, the information will need to be shown also by organization units, since it is desirable to make appropriations only by such units in order to establish responsibility for administrative work. The functional classification may be superimposed on the organization units, but this is likely to be confusing. It is perhaps better to keep the two separate and draw parallels between the functional groups and the organization units by making the totals agree at certain points. This method will show the existing relationships and enable comparisons to be made. By such use of the functional analyses, it is possible to show faulty and uneconomical organization and, at the same time, to stimulate public interest in the budget.

Something should be said at this point about the intradepartmental use of the functional classification. It is possible to classify the work of an administrative department according to functions or activities, the activities being indicative of the lines of endeavor which are required in the performance of the function. The functions may coincide with the internal organization of the department, or they may not. If the department is methodically organized, it is likely that they will coincide with the bureaus or divisions. In this event, the classification of departmental expenditures by subordinate units is sufficient to indicate the functional purposes for which they are made. However, functions may be recognized independently of and without relation to the internal organization of the department. This is evidently the intention of some of the budget laws, such as the Virginia law, which provide that departmental expenditures must be analyzed according to functions. It is doubtful if the information thus presented is of any significance, inasmuch as the expenditures

are more or less arbitrarily distributed. Once the distribution has been made, the functions cannot be regarded as a satisfactory basis for making appropriations.<sup>1</sup> It is of course possible to derive cost data from analyses of the operations, activities, or functions carried on within departments which are quite valuable from the administrative standpoint. But such data are the result of cost accounting processes rather than methods of classification.

*Classification by Organization Units.*—An organization unit may be defined as any department, bureau, division, or agency of the government which is so constituted as to have a directing head who is responsible for the performance of its work. It is, in other words, a structural entity of the government. Responsible direction and relative permanence are its main characteristics. It may be large or small; size or volume of work has no particular significance. It may be unifunctional, or it may perform several related functions. If it is of the former type, it will likely be a single, compact structure; if of the latter type, it will probably contain several subordinate units. For example, a multifunctional organization unit, such as a large department, might consist of several bureaus and each of these in turn be made up of several divisions. In establishing organization units, there is no limit to the extent of subdivision so long as a distinct function remains the basis of each organization unit. When the subdivision goes below the function, it reaches the activity and finally the operation. Neither of these is suitable as a basis for the establishment of an organization unit, since each is of a more or less changing or temporary nature depending upon the methods and processes employed in the performance of governmental work. However, either an activity or an operation may be regarded as the proper basis for a working unit, or several such units, to be followed in the preparation of cost accounting analyses.<sup>2</sup>

Classification by organization units has as its purpose the establishment of definite responsibility in making expenditures. This is basic in any effective system of financial control. As in the case of functional classification, there is practically no uniformity. But this does not detract from the value of the organizational classification as a means of budgetary information. In classifying governmental expenditures on the organizational basis, it is well to allot all outgo to some organization unit. Certain expenditures, such as those for debt service, pensions, etc., are sometimes regarded as "nonorganizational," since they do not constitute a part of the direct cost of operating or maintaining the organization units. It is argued,

<sup>1</sup> See above, pp. 132 and 144.

<sup>2</sup> See below, pp. 527-529.

therefore, that such expenditures should be shown under a general heading separate from the organization units. This may, of course, be done; in fact, it is done under the character classification, which is discussed below. But for the purpose of making appropriations, it seems advisable to include these expenditures under some organization unit which can be held responsible for supervising the transactions incident to paying out the money.

*Classification by Objects.*—The term “objects,” as used in designating this type of expenditure classification, is somewhat of a misnomer. The classification includes not only the things purchased by the government, such as services, commodities, and properties, but also the payment of obligations, such as indebtedness. Of course, in a broad sense, it may be said that all governmental expenditures are made for objects, at least, for purposes which finally resolve themselves into objects. Usage, however, has decreed that “object classification” is a proper designation, and in lieu of a better term, we shall continue to use it.

The classification by objects, as we have pointed out in the early part of this chapter, was among the first of the expenditure classifications to be developed. Accountants and others turned their attention to it more than twenty years ago. This was no doubt due to the fact that the first efforts in the direction of proper accounting control and financial reporting centered around what the government bought to carry on its work. Any analysis of these purchases which would be comparable as between the different spending agencies of the government required systematic arrangement or classification—classification by objects. At first, this classification was very crude; the groups were illogical and overlapped. The first group to emerge with any definiteness was that of personal services, including the salaries, wages, and other compensations of individuals in the direct employment of the government. Supplies, materials, and equipment next assumed definite shape as groups in the classification. The other expenditures were arranged and rearranged under different groups, varying widely from state to state or from city to city. In fact there is still much disagreement relative to what should be regarded as the proper grouping for them.

One of the earliest expenditure classifications used by any government in this country was the “budget classification” of New York City. This classification dates back to 1908, when it was applied to certain city departments; by 1912, it had been sufficiently developed so that it was promulgated by Comptroller Prendergast for uniform application. It was of the object type. As we have already stated,



it was largely the work of the New York Bureau of Municipal Research. Once adopted, it has been used practically without change by the city authorities in their accounting and budgeting work until the present time. The New York City classification, as it has been designated, is of interest here not on account of its use by the largest city in the country, but because of the fact that it has been copied widely by other cities and even states. It has seven main classes with subclasses as indicated below :

- 1 Personal service
  - Salaries, regular employees
  - Salaries, temporary employees
  - Wages, regular employees
  - Wages, temporary employees
- 2 Supplies
  - Food
  - Forage and veterinary supplies
  - Fuel
  - Gasoline
  - Office supplies
  - Medical and surgical supplies
  - Laundry, cleaning and disinfecting supplies
  - Refrigerating supplies
  - Educational and recreational supplies
  - Botanical and agricultural supplies
  - Motor vehicle supplies
  - General plant supplies
- 3 Equipment
  - Office equipment
  - Household equipment
  - Medical and surgical equipment
  - Live stock
  - Motorless vehicles and equipment
  - Motor vehicles and equipment
  - Wearing apparel
  - Educational and recreational equipment
  - General plant equipment
- 4 Materials
  - Highway materials
  - Sewer materials
  - Building materials
  - General plant materials
- 5 Contract or open order service
  - General repairs
  - Motor vehicle repairs
  - Light, heat and power
  - Janitorial service
  - Transportation

- Communication
- General plant service
- 6 Contingencies
- 7 Fixed charges and contributions
  - Debt service
  - Rent
  - Pensions
  - Insurance
  - Care of dependents in private institutions
  - State taxes
  - Advertising

This classification carefully defined the first, second, third and fourth groups in an attempt to draw dividing lines between them. Supplies were designated as "articles which can be used but once, or which after being used once, show a material change in or an appreciable impairment of their physical condition." Equipment was defined as "all articles which can be used over and over again without a material change in or an appreciable impairment of their physical condition." Materials were regarded as "articles and substances in a natural or manufactured state entering into the construction or repair of any building, highway, sewer, apparatus, machinery or other equipment." Even so, the lines between the three groups had to be more or less arbitrarily drawn. The city government bought several articles or things which might be put into any one of the groups, depending upon the use that was made of them. While the subgroups were indicative of the contents of each group, they referred, in most instances, to the articles or things purchased in terms of their purpose or use rather than according to their nature as physical objects. The subgroups, thus, departed from the definitions already laid down. A distinction, especially between certain supplies and materials, might more easily have been drawn upon an object basis than according to use. The personal service group was clearly marked out. The fifth group, "contract or open order service," often called "contractual services," or "services other than personal," was not sufficiently inclusive. Two subheads from the seventh group, namely "advertising" and "care of dependents in private institutions," should have appeared under the fifth group. This assumes that the care of dependents in private institutions is a payment for service and not in the nature of a gift or subsidy; in the latter case this subgroup would remain in group seven. The sixth group was not an object class, but was merely thrown in to provide against unforeseen expenditures. Group seven was more in the nature of a catch-all class than anything else. It did not

distinguish, as it might well have done, between charges which were obligatory and those which were not. Buildings, structures, and lands were entirely omitted from the classification. These were left out because the New York City budget was originally, and still is, mainly an operating budget, the acquisition of property being met largely through the issuance of credit which appears later in the budget under the heading of debt service.

In 1914, the New York City classification was adopted in the state of Ohio with some minor modifications and rearrangements. The main headings were as follows: (1) personal service, (2) supplies, (3) materials, (4) equipment, (5) contract and open order service, (6) additions and betterments, (7) fixed charges and contributions, and (8) rotary funds. Contingencies became a subclass under class five. Class six covered lands, buildings and structures, which the other classification did not provide for. Class eight was not an object group; it included funds used for working capital purposes particularly at the state institutions. During the same year, Dayton, Ohio, in installing a budget system under the new city manager government, also adopted a modification of the New York City classification. The main classes in this case were: (1) personal service, (2) contractual services, (3) sundry charges, (4) supplies, (5) materials, (6) equipment, and (7) real estate. Classes two and three were practically the same as five and seven, respectively, of the New York City classification. Classes four, five and six were itemized more in accordance with objects than purpose or use. The last class included both land and buildings. Contractual services were defined as "activities performed by other than municipal departments, under expressed or implied agreement, involving personal service plus the use of equipment or the furnishing of commodities."

The Dayton modification of the New York City classification was copied widely by other city governments throughout the country, particularly manager cities. A combination of both the Dayton and the Ohio state classifications was adopted by a number of state governments, notably Virginia, South Carolina, and Wyoming.

Even more comprehensive and more carefully devised than the New York City classification was the object classification prepared in 1911 under the direction of President Taft's Economy and Efficiency Commission for use in the national government. This classification had eleven main groups and several subordinate groups, as indicated below:

- A Salaries, wages, and other compensation for personal services currently rendered
- B Services other than personal:
  - (1) Transportation of persons (service)
  - (2) Transportation of things (service)
  - (3) Subsistence and support of persons (service)
  - (4) Subsistence and care of animals and storage and care of vehicles (service)
  - (5) Communication service
  - (6) Printing, engraving, lithographing, and binding (service)
  - (7) Advertising and publication of notices (service)
  - (8) Furnishing of heat, light, power, and electricity (service)
  - (9) Special and miscellaneous services other than personal (including repairs by contract or open market order)
- C Materials not specifically adapted for use as supplies, equipment, or structures
- D Supplies:
  - (1) Stationery, drafting, scientific, and educational supplies
  - (2) Fuel (including burning and illuminating gases, oils, and liquids)
  - (3) Mechanic's, engineer's, and electrician's supplies; furnace and foundry supplies
  - (4) Cleaning and toilet supplies
  - (5) Wearing apparel and hand-sewing supplies
  - (6) Forage and other supplies for animals
  - (7) Provisions
  - (8) War supplies; explosives and pyrotechnic supplies
  - (9) Special and miscellaneous supplies
- E Equipment (including live stock) and parts
- F Structures and parts, and nonstructural improvements to land
- G Land
- H Capital outlays for rights and obligations, and payment of debt:
  - (1) Purchase of rights to demand, control, or enforce action, or of rights to act
  - (2) Payment of debt and payment to sinking funds
  - (3) Repayment of deposits
  - (4) Treaty obligations
  - (5) Refunds, awards, and indemnities
- J Fixed charges and contributions other than pensions and retirement salaries:
  - (1) Rents
  - (2) Royalties
  - (3) Fees for licenses, permits, and privileges
  - (4) Interest
  - (5) Insurance and depreciation funds
  - (6) Educational and general welfare grants and contributions
  - (7) Trade subsidies and bounties
  - (8) Burial expenses, providence funds, and other gratuities
- K Pensions and retirement salaries
- L Losses and contingencies



The scope of each group in the foregoing classification was pretty clearly indicated by the title, or the subgroups, or both. Any overlapping or uncertain fringe between the various groups was practically eliminated by an extensive code of several thousand items reaching down to the individual objects. Although this classification was promulgated by the Comptroller of the Treasury in 1911 for use in connection with the accounting of the various departments and branches of the national government, it was never very consistently followed. However, it later became the basis of the "classification of objects of expenditure" adopted in 1922 by the General Accounting Office for use in connection with the national budget system, which had just been established. The primary groups of the latter classification were increased to twenty-four, principally by making main headings out of several subgroups of the older classification. The order of the groups was also changed so that they would readily fall under the divisions of the character classification.<sup>1</sup>

In 1912 the city authorities of Philadelphia, with the assistance of the local Bureau of Municipal Research, adapted the classification of the Taft Commission for use in the city accounting system. The main classes were as follows: (1) personal services, (2) services other than personal, (3) materials, (4) supplies, (5) equipment, (6) structures and nonstructural improvements to land, (7) land and interest in land, (8) debt payments, (9) interest and state tax on debt, and (10) rentals, contributions and pensions. This classification is used, practically without change, in the accounting and budgeting work of the city government at the present time. A few other cities adopted somewhat modified forms of the Philadelphia scheme, but the classification of the Taft Commission was by no means as widely copied as that of New York City.

Recently, however, there has been an apparent drift, particularly in the states, to the form of classification proposed by the Taft Commission. Several states, notably Idaho, North Carolina, and the Territory of Hawaii, have adopted this classification either *in toto* or in modified form. About 1921 Idaho adopted a classification of expenditures which, with a few subsequent changes, was practically identical in its main groups and subgroups with those proposed by the Taft Commission. This classification has since been used in the accounting and budgeting work of that state.

<sup>1</sup> See "Classification of Objects of Expenditure for Departments and Establishments of the Government of the United States," General Accounting Office, Bulletin No. 1, May 11, 1922. Also see Appendix II for a summary of this classification.

North Carolina adopted a classification in 1924, which resembled in certain respects the federal classification as promulgated by the General Accounting Office in 1922. Its main classes were as follows:

- 1 Operating expense
  - 11 Personal service
  - 12 Supplies and materials
  - 13 Postage, telephone and express
  - 14 Travel expense
  - 15 Printing, binding and publicity (under contract)
  - 16 Motor vehicles (upkeep)
  - 17 Light, power and water (under contract)
  - 18 Repairs (contractual service)
  - 19 General expense
- 2 Current obligations
  - 21 Interest
  - 22 Insurance and bonding
  - 23 State aid
  - 24 Miscellaneous obligations
- 3 Acquisition of property
  - 31 Equipment
- 4 Additions and betterments
  - 41 Land, buildings and permanent improvements
- 5 Redemption of debt and transfers
  - 51 Debt payments
  - 52 Transfer of funds

It should be noted that the North Carolina classification is so arranged as to indicate the character groupings; in fact, the main classes are in reality character designations. Even so, the classification might have combined classes three and four, since both constitute the "acquisition of property." The "transfer of funds" should have been omitted from the last class, since this is merely a treasury operation and has no place in an object classification of expenditures.

In 1924, the Territory of Hawaii adopted a classification which was very similar to that of the national government. It differed in some respects from the North Carolina classification. Its principal classes were as follows:

- Current expenses
  - 01 Personal services
  - 02 Supplies
  - 03 Materials
  - 04 Communication service
  - 05 Travel expenses
  - 06 Transportation of things (service)
  - 07 Printing and binding (service)

- 08 Advertising and publication of notices (service)
- 09 Furnishing heat, light, power and water (service)
- 10 Rents (rentals)
- 11 Repairs (contractual services)
- 12 Special and miscellaneous current expenses
- 13 Depreciation
- Fixed charges
- 20 Interest
- 21 Pensions, retirement salaries, and annuities
- 22 Grants, subsidies and contributions
- Acquisition of property
- 30 Equipment
- 31 Land and interests in land
- 32 Structures and permanent improvement to land
- 33 Stores purchased for resale
- Payment of debt
- 40 Public debt redemptions
- Capital outlays for rights and obligations
- 50 Investments (including working capital funds)
- 51 Repayments of deposits
- 52 Refunds, awards and indemnities
- Transfers of funds
- 60 Transfers of funds

Classes 13, 33, 50, 51 and 60 of the foregoing classification are omitted when applied for budgeting purposes. This is doubtless due to the fact that no appropriations are made directly to these classes. While such classes represent mainly treasury operations which are recorded in the accounts, they are of no particular significance in the preparation of the budget. Class 52 might more properly be included under current expenses.<sup>1</sup> With this class removed, the group called "capital outlays for rights and obligations" has very little place in a classification of expenditures for state governments. With the national government it is somewhat different, since treaty obligations may be included under such a group.

The object classifications adopted by several states and cities do not resemble either the proposal of the Taft Commission or the New York City classification. They are hybrid schemes, containing elements of both types. Among the states with such classifications are Illinois, Massachusetts, New York and Pennsylvania; among the cities are Boston, Detroit, Minneapolis and Rochester. At least two of these classifications, namely, those of Illinois and Rochester, are worthy of some discussion in this connection.

The Illinois classification was adopted immediately after the reor-

<sup>1</sup> A refund, however, may be regarded merely as an adjustment of revenues rather than a current expense. See below, pp. 205-206.

ganization of the state administration in 1917. It has eleven general classes as follows: (1) salaries and wages; (2) office expenses, covering expenditures for the operation of departments; (3) travel; (4) operation, covering expenditures for the conduct and maintenance of institutions and agencies; (5) working capital, as applied to institutional manufacturing; (6) repairs; (7) equipment; (8) permanent improvements; (9) land; (10) contingencies; and (11) reserve. The first nine of the above classes constitute titles of accounts kept by the department of finance, the appropriations made under the last two headings being allocated to some of the others before expenditure. This classification tends to confuse not only the object and purpose for which expenditures are made, but also the character and fund designations. Class two includes supplies, contractual services, and current charges; class four, supplies and contractual services; class five, supplies, materials, equipment and labor; class six, supplies, contractual services, equipment, and labor. Hence, these four classes overlap each other in a confused manner. Class four is an attempt at character grouping, while class five is a fund designation. The latter class represents merely a treasury operation. This classification, irregular as it is, has been embodied in the finance code of the state since 1919. The reason for making it statutory was to extend its application to those departments and agencies which were not included in the reorganization under the civil administrative code and therefore were not subjected to fiscal control by the department of finance. Thus a special situation was met in Illinois. In general, however, it seems unwise to write any expenditure classification in the law. Such classification is an administrative, not a legislative, matter and should be promulgated by executive order.

The Rochester classification, adopted in 1916, was notable for several reasons. It was perhaps the most detailed object classification ever devised for any city government. It adhered very closely to the object basis, particularly in the supplies, materials, and equipment classes. It embodied many ideas that had their origin in the "standard classification of expenditures," which the New York Bureau of Municipal Research undertook about 1914 and was unable to complete.<sup>1</sup> This was especially true of classes C and D, C being materials and supplies, or "things consumed or converted when used," and D being equipment, or "things not consumed or converted when used." Class D, however, did not include structures and land as did the unfinished classification. All classes, subclasses, and

<sup>1</sup> See above, pp. 179-180.



objects were coded. An alphabetical list of about 7,500 articles or things purchased by the city government was appended with a code number attached to each indicating its place in the classification. The classification and appended list filled a pamphlet of about one hundred quarto pages. The main headings of the classification were as follows: A—personal services; B—services other than personal; C—materials and supplies; D—equipment; E—land, structures and nonstructural improvements; F—rights, obligations and payment of debt; G—rents, privileges, interests, taxes, insurance and depreciation; H—pensions; J—contributions; K—losses and contingencies; and L—payments arising from relation as agent. The most novel thing about this classification was the elaborate detail of classes C and D.<sup>1</sup> The subclasses listed under these classes were each divided and redivided until the individual objects were reached. As an illustration of how this was done, subclass C1200 of materials and supplies is presented below.

- 1200 *Clay, Chalk, Talc and Magnesia*
- 1210 Clay
- 1220 Clay Products
- 1221 Brick
- 1222 Tile
- 1223 Terra cotta
- 1224 Pipes and plumbing supplies
- 1225 Crucibles
- 1226 Porcelain knobs (insulator)
- 1230 Chalk
- 1231 Natural chalk
- 1232 Chalk crayons
- 1240 Talc and Soapstone
- 1241 Talc
- 1242 Soapstone
- 1250 Magnesia and Magnesia Compounds

Under the Rochester classification, the distribution of expenditures according to objects was made in the city comptroller's office with the aid of the Hollerith tabulating machine. Punch cards were made up as the vouchers came through and were approved for payment. At frequent intervals these cards were sorted and tabulated. At first the work was kept up to date, but after three or four years it was allowed to lag behind so that the information was not available until several weeks, or even months, after the transactions had been completed. It was claimed by those who operated the system that this elaborate analysis by objects served no useful purpose either

<sup>1</sup> See Appendix III for an outline of the subclasses that appeared under each class of the Rochester classification.

in the accounting or the budgeting work. Of course, they overlooked the fact that such analysis might be very valuable in centralized purchasing and standardization work and in cost accounting; but these methods were in a more or less undeveloped state. For purposes of general accounting and reporting—and these were what the officials had in mind—the object analysis was undoubtedly too detailed. Without a work program based upon adequate cost records, this analysis could not with advantage be carried into the preparation of the budget.

The city administration, therefore, asked the Rochester Bureau of Municipal Research in 1923 to simplify the object classification. After considerable study, the Bureau suggested a rearrangement of the main headings of the old classification so that they might fit more easily into the following character groupings, namely, current expenses, fixed charges, acquisition of property, and redemption of debt. Under the two classes, C and D, it suggested that the detailed analyses be dropped and a few general subclasses be substituted therefor, these subclasses being more in the nature of purpose or use than of object designations. The Bureau's suggestions were adopted by the city administration. The subclasses under classes C and D were outlined as follows:

C Materials and supplies

Office supplies

Food and provisions

Fuel

Electrical, mechanical and shop supplies

Laboratory, medical and chemical supplies

Forage and veterinary supplies

Wearing apparel and dry goods

Cleaning and sanitary supplies

Motor and other vehicles

School supplies

Recreation supplies

Agricultural and botanical supplies

Miscellaneous supplies

Building and construction materials

Miscellaneous materials

D Equipment

Office furniture and fixtures

Furniture and fixtures (other than office)

Medical and surgical

Instruments

Apparatus

Animals and animal equipment

Motor vehicles

Other vehicles  
Machinery, tools, etc.  
Plant (heating, light, and refrigerating)  
Educational  
Books, maps, charts, etc.

The distribution of city expenditures under the revised classification no longer required the Hollerith tabulating machine. It was done through the use of large sheets with vertical columns, each headed by a subclass, such as are shown above under classes C and D. The extent of the analysis for budgeting purposes was limited to these subclasses.<sup>1</sup>

We have discussed at length the Rochester experience, since it throws considerable light on the kind of object classification that ought to be used, at least to begin with, by state and local governments. Evidently such governments should not start with an elaborate classification, especially when their accounting system and budgetary procedure are still more or less undeveloped. In such cases, the administration does not usually know what to do with highly detailed information, once it has been produced—management has not yet reached the stage where there is a real need for it. A government, under these circumstances, should adopt a simple classification; one that is flexible and one that is capable of expansion to produce detailed information when required.

*A Model Object Classification.*—An object classification to be generally acceptable and serviceable alike to state and local governments should have a limited number of main classes, seven or eight being sufficient. These classes should be as free as possible from overlapping fringes, even if arbitrary lines of demarcation have to be drawn. Each class should be divided into a few subclasses; the number of these should vary according to the general nature of the objects or the emphasis which it seems desirable to place on certain expenditures for purposes of information or control. Extreme detail should be avoided, although it should be possible to prepare minute analyses by objects whenever these become necessary. The titles of the subclasses should be according to object designations rather than use or purpose. The main classes should be so arranged as to fit readily into the major groups of the character classification. Finally, the object classification should be elastic enough to be easily adaptable to any government, state or local, regardless of size.

With these general characteristics in mind, the writer has devised

<sup>1</sup> See above, p. 101 on which is an exhibit of the form of the estimates taken from the Rochester budget.

an object classification of expenditures which combines what he deems to be the desirable points of the various classifications previously discussed. This classification is designed especially for use by state and local governments. It is the outgrowth of a classification proposed by the writer several years ago in connection with the state and city surveys conducted by the New York Bureau of Municipal Research. The older classification was first published in 1921.<sup>1</sup> It had at that time eighteen main headings, thus making it quite elaborate; in fact, it was too complex for the great majority of state and city governments. This became apparent when it was actually applied in accounting and budgeting work. For this reason the condensed form, which is presented below, was prepared; it contains only seven main classes. This form, experience showed, operated with much better success. As an object classification, it was more flexible and more easily adjustable to expenditure volume. It was adopted in 1925 practically *in toto* by the Indiana state board of accounts for uniform use in all cities and counties of that state in connection with their budgeting and accounting work.<sup>2</sup> In 1928, it was adopted by the city of Cincinnati.<sup>3</sup> The following outline presents the main classes and subclasses of this classification with code numbers attached.

### EXPENDITURE CLASSIFICATION BY OBJECTS

#### 1000 *Services—Personal*

- 1100 Salaries, regular
- 1200 Salaries, temporary
- 1300 Wages, regular
- 1400 Wages, temporary
- 1500 Other compensations

#### 2000 *Services—Contractual*

- 2100 Communication and transportation
  - 2110 Postage
  - 2120 Telephone and telegraph
  - 2130 Freight and express

<sup>1</sup> See the author's *Budget Making* (1921), pp. 51-53. This classification was later condensed under the main headings now used and published in the *American City Magazine*, March, 1924, pp. 282 ff. A further development of the same classification was subsequently published in *Municipal Budgets and Budget Making* (1925), pp. 18-21; also in *Municipal Finance* (1926), pp. 64-66.

<sup>2</sup> The only change made in the main headings was the splitting up of the "commodities" class into two classes, designated as "supplies" and "materials." See pamphlets entitled "Budget Classification for Civil Cities" and "Budget Classification for Counties," prescribed by the State Board of Accounts of Indiana, prepared by Lawrence F. Orr, state examiner, July 1, 1925.

<sup>3</sup> See below, pp. 208 and 583-587.



## PUBLIC BUDGETING

- 2140 Traveling expenses
  - 2150 Hired horses and vehicles
- 2200 Subsistence, care and support
  - 2210 Subsistence and support of persons
  - 2220 Subsistence and care of animals
  - 2230 Storage and care of vehicles
- 2300 Printing, binding, and advertising
  - 2310 Printing
  - 2320 Typewriting and mimeographing
  - 2330 Binding
  - 2340 Photographing and blueprinting
  - 2350 Advertising and publication of notices
- 2400 Heat, light, power, and water
  - 2410 Heating service
  - 2420 Interior lighting service
  - 2430 Street lighting service
  - 2440 Power service
  - 2450 Water service
- 2500 Repairs
  - 2510 Repairs to equipment
  - 2520 Repairs to buildings and other structures
- 2600 Janitorial, cleaning, waste removal, and other services
- 3000 *Commodities*
  - 3100 Supplies
    - 3110 Stationery
    - 3120 Food products
    - 3130 Forage
    - 3140 Fuels
    - 3150 Gasoline, oils, and lubricants
    - 3160 Clothing and dry goods
    - 3170 Cleaning supplies
    - 3180 Chemicals, drugs, and medicines
    - 3190 Other supplies (*e.g.* repair parts)
  - 3200 Materials
    - 3210 Lumber and timber
    - 3220 Masonry and road materials
    - 3230 Structural metals
    - 3240 Paints, oils, and glass
    - 3250 Fiber product (woven fabrics, paper, etc.)
    - 3260 Hides, pelts, and leather
    - 3270 Other materials
- 4000 *Current Charges*
  - 4100 Rents
    - 4110 Of buildings and offices
    - 4120 Of equipment
  - 4200 Insurance
    - 4210 On buildings and structures
    - 4220 On stores

- 4230 On equipment
- 4240 Official bonds
- 4250 Employers' liability
- 4300 Refunds, awards, and indemnities
- 4400 Registrations and subscriptions
- 5000 *Current Obligations*
  - 5100 Interest
  - 5200 Pensions and retirements
  - 5300 Grants and subsidies
  - 5400 Taxes
- 6000 *Properties*
  - 6100 Equipment
    - 6110 Furniture, furnishings, and fixtures
    - 6120 Hand tools
    - 6130 Machinery and implements
    - 6140 Vehicles and harness
    - 6150 Motor vehicles
    - 6160 Live stock (not for slaughter)
    - 6170 Instruments and apparatus
    - 6180 Other equipment
  - 6200 Buildings and improvements
    - 6210 Buildings and fixed equipment
    - 6220 Walks and pavements
    - 6230 Sewers and drains
    - 6240 Roads
    - 6250 Bridges and viaducts
    - 6260 Piers and wharves
    - 6270 Trees and shrubs
    - 6280 Nonstructural improvements
  - 6300 Land
- 7000 *Debt Payments*
  - 7100 Serial bonds
  - 7200 Sinking fund installments

It may assist the reader in understanding the foregoing classification, if its seven main classes are defined. Classes 1000 and 2000 both represent services, but they differ in this respect: class 1000 includes only the direct labor of persons in the regular or temporary employment of the government, while class 2000 includes all work performed for the government, under express or implied agreement, by persons who are not employees of the government. The latter class involves both labor and the use of equipment or the furnishing of commodities in the performance of work. Class 1000 has been subdivided so as to separate salaries from wages and regular from temporary employees. The former distinction is not so important (sometimes it is difficult to draw a line between salaries

and wages), but the latter is. Temporary employees should be placed in a separate group, since they represent the annual fluctuation in the personal service needs of the government. Other compensations represent fees, retainers, and the like. Class 2000 has been divided into six subclasses according to the general nature of contractual services. Equally logical and usable subdivisions might have been made along other lines, depending on where the emphasis is placed. But this arrangement seems adequate for the purpose of bringing out the salient facts with reference to contractual services. Subclass 2100 combines both communication and transportation. Some classifications now in use separate the two, but this seems unnecessary for most state and local governments.<sup>1</sup> All postal service, parcel post as well, is included under 2110. Commercial messenger service should be itemized in connection with telephone and telegraph service. Traveling expenses include fares, pullman, taxi, lodging and food for persons in the employment of the government. All charges for drayage, truckage, lighterage, etc., are included under 2150. Subclass 2200 includes the institutional care of persons, the care of animals, and the storage of vehicles on a contractual basis. All payments for printing, binding, typewriting, mimeographing, photographing, and advertising not performed by governmental agencies are included under subclass 2300. Binding cost when done in connection with printing is included under 2310; but when done separately, it belongs under 2330. Advertisements for labor or supplies and the publication of proclamations, court notices, proceedings, laws and ordinances are included under 2350. Subclass 2400 includes expenditures for heat, light, power and water when furnished by private concerns or by government owned utilities for whose services a charge is made. Subclass 2500 embraces expenditures for repairs where both labor and parts or materials are included. When repairs are made by government forces, the expenditures for parts or materials are included under commodities. If the repairs or alterations are of such a nature as to add materially to the value of equipment or structures, thus increasing the capital assets of the government, the expenditures for them should be classified under properties. Expenditures for janitorial, cleaning, waste removal, towel and bottled water service, and other similar contractual services are placed under subclass 2600.

Class 3000 comprehends all commodities, commonly referred to

<sup>1</sup> The classification of the national government has three headings: communication service, travel expenses (transportation of persons), and transportation of things.

as supplies and materials; in other words, "things consumed or converted when used." Many classifications separate supplies from materials, placing them in independent major groups. For budgeting purposes, this arrangement is an unnecessary refinement. Besides, it adds to confusion in classifying a number of commodities which may belong in either category depending upon their use. Lime, for example, if used in construction is a material, but when spread on farm land is a supply. It seems more desirable to place both supplies and materials under the same general class, making an approximate distinction between the two by the use of subclasses. This has been done in the proposed classification. Subclass 3100 includes those commodities commonly known as supplies. The divisions of this subclass, the titles of which follow object designations rather than purpose or use, indicate the range covered by supplies. Office supplies are included under 3110. Food products comprehend all provisions for persons, while forage covers foods for animals. Fuels include coal, wood, petroleum, and so forth. Gasoline, other petroleum distillates, and oils for use in motor vehicles are included under 3150. The scope of the other divisions are indicated by their titles. If supplies for drafting and photographic purposes are used by the government in any appreciable quantity, it may be desirable to set up divisions for these. Otherwise they may be included as office supplies. They may, however, be set up as a separate subclass. Repair parts for equipment are included under supplies. Subclass 3200 includes expenditures for all materials which are not allocated to supplies, equipment, or structures at the time of purchase. The cost of materials bought for specific construction projects appears under buildings and improvements, subclass 6200. Materials used for repair purposes and by government forces in construction work are included under subclass 3200. As in the case of supplies, the divisions under materials follow object designations. The titles indicate the scope of each division.

Class 4000, current charges, covers in general those expenditures which may be contracted annually by the governmental authorities. Of course, this is not exactly true of refunds, awards, and indemnities. Refunds, due to overpayments in error, are sometimes made during the budget period by the treasury official as a matter of routine, without action by the budget making authority. They are then merely treasury operations and do not appear in the budget. However, refunds appear in the budget in the national government and some of the state and local governments, since specific legislative authorization is required in order that the treasurer may pay back



moneys erroneously collected for taxes and so forth. When refunds are made as a result of court orders, they are almost invariably made payable at once, whether the current budget contains an appropriation for the purpose or not. They, therefore, become a charge against surplus, if a surplus exists, or create a deficit which must be provided for in the next budget. The issuance of court orders, in the case of refunds, generally allows the budget making authority no choice either as to the time of payment or as to the amount to be paid. This procedure may, therefore, result in throwing out of balance a budget which is otherwise carefully drawn; the budget making authority can only arrange in future budgets to take care of a deficit thus created in the current budget. Awards for personal injury due to some public activity or neglect may also be charges against current revenues, since they are frequently made payable by court mandate before the actual appropriation to meet them can be made. Awards for damages or for land takings occur, as a rule, only in connection with local improvement budgets. If the takings or damages are incident to street openings and widenings, they are in many jurisdictions exactly balanced by the special assessments levied on a benefit district within which the awards are made. Indemnities in state and local governments usually arise from the abrogation of contracts; however, they seldom occur.

Class 5000, current obligations, comprises fixed charges resulting from financial transactions, agreements, or contracts previously entered into by government authorities. Expenditures under this class are binding upon the government; they must be provided for annually in the budget. For example, interest must be paid on the outstanding indebtedness, if the credit of the government is to be maintained. The other subclasses are all more or less obligatory in their nature.

Properties, class 6000, include expenditures for land, buildings, fixed improvements, either structural or nonstructural, and all equipment which has an appreciable and calculable period of usefulness. Subclasses 6100, 6200 and 6300 are frequently set up as main classes. Of course this can be done, but it is unnecessary for purposes of adequate classification. Equipment, when placed in a separate class, has been defined as those "things which can be used over and over again without a material change in or an appreciable impairment of their physical condition." This definition applies equally well to structures and land. It is, therefore, a distinction without a difference. A real difference, however, lies in the fact that land and structures—structures generally speaking—are fixed

while equipment is movable. But this fact has no significance for purposes of classification. Equipment, structures, and land, as we stated above, have all been put in the category of "things not consumed or converted when used." They belong in the same general class, since they all add to the capital assets of the government.

Considerable argument has arisen over the question as to where the line should be drawn between equipment and supplies. It now seems fairly well agreed that the term equipment, as we have stated above, should be applied only to those things which have an appreciable and calculable period of usefulness. The minimum period of service for any piece of equipment has been more or less arbitrarily fixed at one year. Of course, the useful life of any equipment depends upon how it is handled and the care that is taken of it. A typewriter, for example, may be completely worn out within a year if used continually day after day, or if used only at intervals it may last several years. In one case, it is a supply; in the other, it may be regarded as equipment. Hand tools, particularly those that are easily worn out or lost, are often classified as supplies. However, these are included in the proposed classification as equipment. The divisions of subclass 6100 follow object designations, the titles being self-explanatory. Motor vehicles are separated from other vehicles, because of the increasing size of governmental expenditures for automobiles and trucks. Subclass 6200 includes all buildings and improvements, as indicated by the division headings. Not all of these are structural; some of them are nonstructural, such as fills, terraces, grades, and horticultural improvements. Subclass 6300 includes not only land but also leaseholds, easements, and water rights.

Class 7000, debt payments, covers all expenditures made by the government for the retirement of serial bonds or for installments to sinking funds which are used at some future time to redeem term bonds. In the latter case the money is budgeted when it goes into rather than when it is paid out of the sinking funds.

This classification can be readily expanded or contracted to suit the accounting and budgeting requirements of any state or local government. In doing so, however, the seven main classes should not be changed. Of course, the seventh class will only appear under the organization unit which has charge of debt retirement. For the other operating units of the government, the main classes will therefore not exceed six. In most cases there will be no necessity of making any changes in the subclasses; these are general enough to stand without alteration. The divisions under the subclasses may be modified as local conditions seem to require. The divisions are

not intended to be rigidly followed. Subdivisions may be made under each division extending down to the individual object or thing procured by the government.<sup>1</sup>

The numbers prefixed to each item of the classification merely represent a convenient type of code. The code is, in brief, a shorthand method by which the financial officers or employees of the government may make entries in the most abbreviated form on requisitions, orders, invoices, and vouchers which, when carried into the accounts, will enable them with the minimum of time and effort to collect the expenditure data in an orderly and uniform manner—that is, according to the classification. The code is indispensable if the information is assembled through the use of punch cards which are sorted and tabulated either by the Hollerith or Powers machines. Italicised code numbers precede those items which should appear in the columnar captions in the event the expenditure analysis is made through the medium of ledger or special cost sheets. Those code numbers which are not italicised serve only as group headings in the classification. Any one of the code numbers, although separated from all the others, indicates clearly the class, subclass, and division to which the item belongs. For example, 3125 might represent meat. The first digit to the left indicates the class, the next one the subclass, the third one the division, and the fourth one the object. The department to which the expenditure belongs may be indicated by placing one, two, or three capital letters before the numbers. The letter H might, for example, represent the health department and the letters HV the vital statistics division of this department, then stationery for the division would be coded thus: HV3110. If the punch card system is used in making the expenditure analysis, it will be necessary to convert the letter symbols into numbers. In this case, 25 might be selected to represent the vital statistics division of the health department; the code for stationery for the division would then appear as follows: 25.3110 or 25/3110.

<sup>1</sup> The adaptability of this classification is illustrated by its use for budgetary and accounting purposes in Cincinnati, a manager governed city of over 400,000 population. The application was made by the staff of the Cincinnati Bureau of Municipal Research under the direction of John B. Blandford, Jr. Some additions, mainly with respect to repairs and repair parts, were made to the subclasses, as will be seen by an examination of the Cincinnati classification which is reproduced in Appendix IV. Interest was shifted from the 5000 to the 7000 class on the assumption that it was desirable to show the total debt service under the latter class. The stand was also taken that equipment should include only those things with a life of five years or more. An alphabetical index of about 5,000 objects bought by the city government, each properly coded, was worked out and appended to the classification. See pamphlet entitled "Budgetary Codes of the City of Cincinnati," January 1, 1929.

The fund from which the expenditure is made may also be indicated by adding a letter or a number to the code, thus: 25/3110s or 25/3110/4. This code, without further additions, also shows the character of the expenditure, so that we have four types of classification indicated, namely, organization units, character, objects, and funds.

*Classification by Character.*—The classification of expenditures by character has as its basis a time element. Those expenditures that relate entirely to the present period are termed "current expenses"; those that grow out of obligations entered into during some past period are regarded as "fixed charges"; and those from which service or benefit accrues to the future period are designated as "capital outlays." But these distinctions are not consistently followed in practice. The "fixed charges" group is often absorbed by the other two. The "current expenses" group frequently includes those expenditures growing out of past commitments which are nonasset producing, that is, do not result in the acquisition of property. The "capital outlays" group is extended to cover not only land, structures, and major equipment, but also the redemption of long term bonded indebtedness. This arrangement of governmental expenditures into two groups, current expenses and capital outlays, lends a somewhat different aspect to the character classification; it emphasizes the nature of the things purchased—whether temporary or lasting—in addition to the time element. Although several state and city governments use these two groups in separating their expenditures according to the character classification, there are certain difficulties involved in any such arrangement. The placing of debt redemption under the capital outlays group assumes that all long term bonds have been issued for capital improvements, which is not always the case. If debt retirement is eliminated from this group, as some governments have done, then the term "capital outlays" is narrowed down to the acquisition of property. In any case, the two-group method of classifying expenditures according to character seems rather vague and unsatisfactory; the three-group method on the time basis is also objectionable.

A better method of classification, it appears, for budgeting purposes is the use of four main character groups, namely, (1) current expenses, (2) fixed charges, (3) acquisition of property, and (4) redemption of debt. The first group, current expenses, includes those expenditures for administration, operation, and maintenance. Administration covers only the expenses of overhead or direction, while operation comprises all the direct costs of rendering public service, such as the cost of labor, supplies, and materials. It is not



easy to distribute expenditures between administration and operation; in fact, the division must be somewhat arbitrarily made since there are numerous items of expense which might be classed as chargeable to either one. Maintenance, when used in this sense, covers only upkeep of property, that is, what might be termed current repairs. If used in a broader sense, it also includes replacements, or the expenditures required to keep depreciating property intact and fit for service. The current expenses group therefore includes all costs of the day-to-day operation of the government. These costs are to a considerable degree discretionary or optional with the governmental authorities. It is in this respect that the current expenses group differs from the fixed charges group. Fixed charges are largely mandatory; they arise from obligations, agreements, or contracts entered into by the governmental authorities of prior years. They include interest, pensions, retirements, grants, subsidies, and taxes. The third group, acquisition of property, comprehends all expenditures which increase the capital assets of the government, that is, for major equipment, buildings and improvements, and land and interests in land. The fourth group covers only expenditures for the redemption of debt, either by the direct retirement of serial bonds or by payments into sinking funds for the ultimate retirement of term bonds. This group is related to fixed charges in that it grows out of contract relations entered into during some previous period, but the retirement of bonds from current revenues is not obligatory in the same sense that the payment of interest is. Bonds may be refunded at maturity rather than redeemed, but interest should be paid when due from current revenues if the government is to maintain its credit unimpaired.

The foregoing character groups fit readily into the proposed classification of expenditures by objects, which we previously outlined. The first four main classes, namely, services—personal, services—contractual, commodities, and current charges, are included under current expenses. The last three classes, that is, current obligations, properties, and debt payments, correspond respectively to fixed charges, acquisition of property, and redemption of debt under the character classification. One has only to bear this in mind in superimposing the character classification on the other one.

After all, one of the main purposes of the character classification in budgeting is to serve as a kind of index to the method which should be employed in financing the various expenditures of the government. The expenditures included under the first two character groups should ordinarily be met out of current revenues; they

should not be met through payment from bond moneys if a sound fiscal policy is to be maintained by the government. Expenditures belonging to the third group may be met from current revenues, or from bond moneys. The extent to which either of these general means may be used, either separately or in combination, in acquiring properties for the government is a matter of policy.<sup>1</sup> Special assessments are in general permissible as a method of financing public improvements, where such improvements confer a benefit on privately owned properties. The expenditures included under the last character group are commonly met out of current revenues. Sometimes, however, bonds are refunded at maturity rather than redeemed, but this procedure merely increases the debt burden of the government.

*Classification of Funds.*—In a broad sense, funds may be classified according to: (1) ownership, (2) authority for establishment, (3) availability for expenditure, and (4) sources of increment.<sup>2</sup> So far as ownership is concerned, funds may be either public or private. The government is the owner of public funds; they are used only for public purposes. Private funds are merely held by the government as an agent and are either used for private purposes or returned to their owners. They consist of receipts from such sources as the following: deposits to guarantee fulfillment of contracts with the government; cash received for safekeeping from prisoners or inmates of governmental institutions; and cash found on deceased persons. While the government may hold private funds in trust or custody, it cannot appropriate them for public purposes. Hence, in budgeting, we are concerned only with those funds of public ownership.

Taking into account, then, simply those funds which are available for appropriation, the process of budget making may be affected by the source of the authority which establishes a fund, by the restrictions placed on its use, and by the income from which it is built up. The last named consideration makes any fund classification which may be adopted for budget making purposes of importance not alone from the standpoint of expenditures, but also from that of income.

The practice of some local governments in treating the words "fund" and "appropriation" as synonymous is without justification. An appropriation is an authorization to expend money for a specific

<sup>1</sup> See above, pp. 159-166 for further discussion on this point.

<sup>2</sup> See Francis Oakey, *Principles of Government Accounting and Reporting*, 1921, pp. 19 ff.

purpose in the carrying out of the budget.<sup>1</sup> The budget making authority is usually allowed considerable discretion in the determination of appropriations; and it may exercise wide powers over their expenditure. A real fund, on the other hand, may have an existence quite independent of the budget. In some cases, the authority for it rests on a definite constitutional, statutory, or charter provision which often antedates the adoption of comprehensive budgeting, and over which the budget maker has no control. In other cases, it is the outgrowth of an express or implied contract with an individual or with another governmental unit. Whether based on enactment or on contract, funds of the most extreme type dedicate certain receipts in their entirety to specific purposes, without regard either to the amounts that may become available for expenditure, or to the expenditure needs. Their existence tends, therefore, both to complicate the accounting system and to hamper financial planning.

Both the availability of public funds for expenditure and the sources of increment of these funds vitally concern the process of budgeting. The availability of such funds is particularly related to the expenditure side of the budget, while the sources from which they are derived pertain especially to the income side. The latter is discussed below under the classification of income by funds.

From the standpoint of availability, public funds fall into four general groups, viz., (1) expendable funds, (2) working capital funds, (3) endowment funds, and (4) suspense funds. For accounting and budgeting purposes, it is desirable to divide the expendable funds into at least three classes, namely, the general fund, special expendable funds, and sinking funds. Each of these classes has certain distinguishing characteristics.

The general fund is usually expendable for any purpose to which the legislative body may appropriate it. In other words, it is the one fund of the government that is, in a broad sense, unrestricted as to expenditure, that can be budgeted freely, and that can be drawn upon to replenish other funds. In most governmental units, the bulk of public income goes into this fund. Restrictions on the general fund are usually imposed from the revenue side in the form, for example, of tax limits. Limitations of this type curtail the size rather than the purposes for which it may be used.

The special expendable funds include expense funds of various kinds, capital funds (bond or loan funds), local improvement funds (special assessment funds), and pension funds. These funds, often referred to as "special funds," are all more or less restricted as to

<sup>1</sup> See above, p. 115.

how they may be used. They are usually established to cover a specific expenditure or class of expenditures. The restrictions surrounding each of these funds must be clearly kept in mind when the budget is being prepared. Many state and local governments provide "special mill levies" to support various enterprises; these levies necessarily constitute special expendable funds.<sup>1</sup>

From one point of view, sinking funds appear to be simply special expendable funds, because they are available for expenditure only in the retirement of bonds. As a matter of fact, there is ample warrant both in theory and in practice for treating them as private funds, held in trust to meet deferred obligations to bondholders. For that reason, their custody, control, and expenditure in some governmental units is vested in a sinking fund commission quite independent of the government proper. Since the most common source of increment to sinking funds is through appropriations from the general fund—although special mill levies and miscellaneous revenues sometimes supplement this source—the budget making authority is concerned only with seeing that periodical appropriations are made to the sinking funds, sufficient to accumulate with the earnings of the funds themselves an amount equal to the deferred obligations when they mature.

Working capital funds, often called "revolving funds," are commonly used in financing institutional or manufacturing enterprises. They are usually replenished from receipts taken in from the sales of services or commodities, or by transfers from other funds through appropriations, the idea being to maintain the capital unimpaired. There is some difference of opinion as to whether the transactions growing out of the operations of working capital funds should enter directly into the general budget of the government or should be set forth in the accounts merely as treasury transactions under each such fund, only the surplus or deficit of each fund in any way affecting the general budget.<sup>2</sup>

Endowment funds are usually constituted through gifts or appropriations. The principal or capital of each endowment fund must remain intact; only the earnings from the investment of it are expendable. It is this peculiar feature that places these funds in a distinct class. As compared with other public funds, endowment funds are few and of small importance.

Suspense funds include certain undistributed receipts in the public treasury. These receipts cannot be expended until they are trans-

<sup>1</sup> See above, pp. 119-121 as to the effect of such levies on budgeting.

<sup>2</sup> See above, pp. 46-47.



ferred to other funds at which time they lose the characteristic of "suspense." Moneys held in suspense funds are therefore in a transitory state or condition; they do not figure in the budget except as a possible item of surplus.

A general classification of public funds for budgeting purposes on the basis of availability for expenditure may be arranged as follows:

- 1 General fund
- 2 Special expendable funds
  - 21 Expense funds
  - 22 Capital funds
  - 23 Local improvement funds
  - 24 Pension funds
  - 25 Other expendable funds
- 3 Sinking funds
- 4 Working capital funds
- 5 Endowment funds

We have already indicated that it is desirable both from the standpoint of budgeting and accounting to have only a limited number of funds. This applies particularly to the special expendable class of funds. Some state governments have literally scores of such funds; local governments, notably cities and counties, often have several of them. The special expense group, 21, contains by far the largest number of these funds. In nearly every case, this entire group, as well as group 25, can with advantage be wiped out and the resources turned into the general fund. Capital or loan funds are usually necessary, if moneys from bond issues are to be accounted for separately from other treasury resources. In this way the government authorities may be certain that these moneys are not expended for purposes other than those for which the bonds were issued. Much the same situation maintains in the case of local improvement funds, particularly where special assessments are used as a means of financing these improvements. Where moneys are contributed for the retirement of government employees, the usual practice is to set up pension funds. We have already indicated the reasons for maintaining sinking funds, working capital funds, and endowment funds.

*Relation of the Different Bases of Expenditure Classification.*—We have already shown how the five bases of expenditure classification are more or less related to each other. There is a close parallel between organization units and functions, provided the governmental structure has been laid out along functional lines. The character classification can be readily superimposed on the object groupings. These classifications, either separately or in combination, may be

related to functions or organization units. The fund classification may also be shown under functions or organization units.

For the purposes of reporting financial information, the different bases of expenditure classification may be used individually or in combination. It is merely a question of producing significant information. The classifications should be used only in so far as they aid in doing this; they should never be employed to the point of obscuring the facts or of yielding inconsequential figures. From the standpoint of budgeting, particularly in the preparation of departmental estimates, it is advisable to use a combination of the expenditure classifications so as to exhibit the information to the best advantage. In order to fix responsibility for expenditure, it seems necessary to make the classification by organization units the primary one. Having done so, its relation to the functional classification can be expressed in the following manner:

- I. Organization unit (major function)
  - (1) Department
2. Suborganization unit (minor or subordinate function)
  - (2) Bureau or division
3. Working unit (activity)
  - (3) Section, squad, gang, or small plant

The expenditure estimates for the budget are set up on the basis of the organization and suborganization units, that is, the departments, bureaus and divisions. The working units are employed only in making cost analyses, which may be used to supplement the other expenditure data. The minor or subordinate functions, in addition to being the foundation for departmental structure, are useful as a guide in setting up operative divisions for the assembling of cost figures.<sup>1</sup>

In presenting the expenditure information under each organization unit, it should be arranged by both the character and the object classifications. We have already indicated how the character classification is related to the other one. The following outline is a composite arrangement of these two classifications.

- I. Current expenses
  - 1000 Services—personal
  - 2000 Services—contractual
  - 3000 Commodities
  - 4000 Current charges
- II. Fixed charges
  - 5000 Current obligations
- III. Acquisition of property

<sup>1</sup> See below, pp. 528-529.

- 6000 Properties
- IV. Redemption of debt
- 7000 Debt payments

It is desirable to indicate in connection with the estimates for each organization unit the fund or funds from which the expenditures are to be made. This can be done on the summary estimate form. Each fund should be specified and the amount payable from it given. The total by funds should aggregate the total for the organization unit. In summarizing the funds on the budget schedules, they should be shown according to the five general classes which we have outlined in a preceding section of this chapter.

Some have questioned the feasibility of attempting to secure expenditure information according to all the foregoing bases of classification. It is, however, not only possible but desirable. No matter what the system of accounting may be, the government must keep a record of expenditures by funds and by appropriation items. Where the appropriations are made to organization units, it is an easy matter to show the expenditures by such units. Beyond this, the information needs only to be classified by character and by objects, and perhaps, where practicable, by subfunction and activity. In small governments such classification can be made without any difficulty by the use of analysis sheets on which the expenditures are distributed at the time the bills are paid. In large governments, it is advantageous to use the tabulating machine method. By this method, the expenditure information is coded, as we have explained above, and punched on cards, which are sorted and tabulated by two special machines, the one being the complement of the other. Standard types of these machines are the Hollerith and the Powers, the principal difference between the two designs being that the former operates by electrical contacts made through the holes punched in the cards while the latter operates by mechanical contacts. The expenditure information can be quickly and accurately brought together either in summary or detailed form by this method.

**Classification of Income.**—For the purpose of this discussion income may be defined as all those resources which public authorities are empowered to expend for governmental purposes, with the exception of temporary loans incurred in anticipation of the collection of taxes or special assessments. The term income is not commonly used in this sense in American governments, although it is generally so used in British municipalities. Private businesses in America, however, employ the term. The United States Bureau of the Census in compiling the financial statistics of cities and states deliberately

avoids the use of income and as a substitute therefor employs two terms, revenue and nonrevenue. It is highly desirable, it seems, to use a single term, which may be set opposite outgo or expenditures in budgetary and other financial statements. Whether or not this term should be *income* is another thing; but at the present time no better word suggests itself. The term "receipts," which is often employed as the counterpart of expenditures, is unsatisfactory since it comprehends all treasury collections regardless of the ownership of the moneys.

Governmental income is commonly classified from three standpoints: (1) sources from which derived; (2) organization units producing it, or collecting agencies; and (3) funds to which it is credited. These are discussed below in the order named.

*Classification by Sources.*—The proper classification of income by sources furnishes information of primary value in budgeting and in the administration of finances. Such classification indicates the moneys available for meeting certain types of expenditures; it is analogous in a way to the expenditure classification by character. While sources of increment to income were mentioned above under the general discussion of funds, classification by these sources was not taken up there because it applies to the income side of the budget.

Until very recently the national government has been without a satisfactory classification of its income by sources. The Bureau of the Budget made a grouping of the federal income for inclusion in the national budget, but this was little more than a makeshift. On June 27, 1928, the Comptroller General promulgated a classification of "receipts" for use by the various departments and agencies of the national government. This classification became effective on July 1, 1928. It divides the receipts of the government into two major groups; revenue and nonrevenue. Each of these is divided into a number of classes with code numbers assigned. Under each class are subclasses and items. In the aggregate, these subclasses and items literally run into the hundreds, more than forty type-written pages being required to exhibit the complete classification. An index of the various items is appended as an aid to the different departmental accounting officers in coding the receipts. The outline of this classification is as follows:

I. Revenue

- 1 Customs receipts
- 100 Internal revenue receipts
- 900 Miscellaneous taxes



1000	Interest, exchange and dividends
2000	Fines and penalties
3000	Fees
3800	Forfeitures
4000	Assessments
4200	Reimbursements
4800	Gifts and contributions
5000	Sales of government property—products
5500	Sales of services
6000	Rents and royalties
6200	Permits, privileges and licenses
6300	Mint receipts
6400	Forest reserve fund
6500	Panama Canal receipts
II.	Nonrevenue
7000	Realization upon assets
8000	Trust fund receipts
9000	District of Columbia receipts
10000	Public debt receipts
.....	Receipts credited direct to appropriations

The foregoing revenue group is defined as “consisting of all receipts from the usual and ordinary governmental income sources”; the nonrevenue group as “comprising receipts from all other sources.” The arrangement of the classes of revenue seems to be largely in the order of the importance of the sources rather than according to any scheme of similarity. The class titles, in most cases, indicate the general nature of the receipts which are included under them. The 4200 class, reimbursements, is largely made up of receipts from the sales of services and commodities and therefore is related to the 5000 and 5500 classes. The 6300 class, mint receipts, consists mainly of charges on bullion deposits, proceeds of surplus bullion recovered, and seigniorage on coinage. The forest reserve fund, class 6400, is composed of special receipts most of which are set aside in dedicated funds. The Panama Canal receipts, class 6500, includes the return of construction costs, the interest thereon, and the sale of certain equipment. The nonrevenue receipts consist of (1) sales of capital assets and returns of loans, (2) funds received by the government as trustee or agent, (3) moneys belonging to the District of Columbia, (4) borrowings, and (5) repayments to appropriations.

The District of Columbia receipts, class 9000 as noted above, are divided into a number of subclasses which are of interest in this connection, since the District, although under the jurisdiction of

Congress, is analogous to a municipality. These subclasses are as follows :

9000	Taxes
9100	Interest
9200	Fees
9250	Permits
9300	Licenses
9320	Fines
9400	Sale of products and services
9500	Rents
9550	Reimbursements
9570	Forfeitures
9590	Discount and purchase rebates
9600	Assessments (special)
9700	Borrowings
9800	Realization upon assets
9900	Trust fund receipts

Not many attempts have yet been made to devise a uniform classification of income based on sources for either state or local governments. One of the most notable attempts in this direction is that of the United States Bureau of the Census. This is the classification used in compiling the financial statistics of states and cities. The income—rather the receipts, if we use the terminology of the Bureau—of state and city governments is divided into two major groups, namely, revenue and nonrevenue. Revenue is defined by the Bureau as the “amounts of moneys or other wealth received by or placed to the credit of the state (or city) governments for governmental purposes, under such conditions that they increase the assets without increasing the debt liabilities or decrease the debt liabilities without decreasing the assets.” All other receipts are regarded as nonrevenue. Revenue is divided into the following classes: (1) general property tax, (2) special taxes, (3) poll taxes, (4) business taxes, (5) nonbusiness license taxes, (6) special assessments, and special charges for outlays, (7) fines and forfeits, (8) escheats, (9) subventions and grants, (10) donations, (11) pension assessments, (12) highway privileges, (13) rents of investment properties, (14) interest, and (15) public service enterprises.

A classification of income by sources, recently adopted by the Territory of Hawaii, resembles somewhat the groupings of the Census Bureau.<sup>1</sup> The main headings of this classification are as follows :

<sup>1</sup> Published in a pamphlet entitled, “Classification of Sources of Income for Departments and Establishments of the Government of the Territory of Hawaii,” Commission on Public Accountancy, Bulletin No. 2, November 14, 1924.

## 1000 Revenues

- 1010 General property taxes
- 1020 Special taxes (utility, inheritance, income, etc.)
- 1030 Poll taxes
- 1040 Business taxes and licenses (insurance, corporation, etc.)
- 1050 Nonbusiness license taxes (general licenses, permits, etc.)
- 1060 Fees
- 1070 Fines, penalties, forfeits and escheats
- 1080 Subventions and grants from United States
- 1090 Subventions and grants from city and county governments
- 1100 Donations and gifts from private persons and corporations
- 1110 Rents (and leases)
- 1120 Interest, premium and discount
- 1130 Sales of public lands
- 1140 Sales of commodities
- 1150 Sales of services
- 1160 Assessments (pension, improvement, etc.)
- 1190 Special and miscellaneous revenues (conscience money, tuition, fair receipts, suspense items, etc.)

## 2000 Nonrevenue Receipts

- 2010 Receipts which increase indebtedness (debt, outstanding warrants, judgments, etc.)
- 2020 Repayments of investments and offsets to outlay payments
- 2090 Special and miscellaneous nonrevenue receipts (duplicate taxes, overpayments, sinking fund installments, etc.)

Rather than to use a negative term, like nonrevenue, it seems preferable to name those elements of governmental income which may not be regarded as revenue, such as borrowings, and receipts from the sales of capital assets. The foregoing classification includes under nonrevenue receipts certain things which are largely treasury transactions, namely, investments, transfers, refunds, and advances. Even so, the Hawaiian classification is a real attempt to outline a consistent grouping of the territory's income.

This is more than can be said for our state governments: the majority of states have nothing that even remotely approaches a classification of income by sources; a few states arrange their revenues according to certain general headings, but these are illogical in most instances and are not uniformly applied. Much the same situation exists in our local governments. The only income classification which is at all uniformly applied, and this solely for statistical purposes, is the classification of the Census Bureau which we have noted above.

The writer presents below a classification of income by sources which can be applied uniformly by state and local governments both for accounting and budgeting purposes. This classification is the

outgrowth of an earlier one prepared by the writer, which in turn was based upon an analysis of governmental income prepared under the supervision of the New York Bureau of Municipal Research about 1915. The original classification was largely the work of Francis Oakey, who was at that time a member of the Bureau's staff.<sup>1</sup>

## INCOME CLASSIFICATION BY SOURCES

1000 *Revenues*1100 *Taxes*

- 1110 General property (specify)
- 1120 Poll
- 1130 Income
- 1140 Business (specify)
- 1150 Inheritance
- 1160 Other taxes

1200 *Rights and Privileges*1210 *Licenses*

- 1211 Motor (specify)
- 1212 Business (specify)
- 1213 Professional (specify)
- 1214 Miscellaneous (specify)

1220 *Permits (specify)*1230 *Franchises (specify utility)*1240 *Concessions (specify)*1250 *Rents (specify)*1260 *Royalties (specify)*1300 *Services and Sales*1310 *Fees*

- 1311 Legal services
- 1312 Inspectional services
- 1313 Technical services
- 1314 Miscellaneous (specify)

1320 *Sales of services and commodities (specify)*1400 *Interest and Premiums*1410 *Interest (specify)*1420 *Premiums (under certain conditions)*1430 *Discount*1500 *Fines and Forfeitures*1510 *Fines*1520 *Forfeitures*1530 *Penalties*

<sup>1</sup> This classification was published some time later in Mr. Oakey's *Principles of Government Accounting and Reporting*, (1921), pp. 282-313. The writer published a rearrangement and condensation of the foregoing classification in his *Budget Making*, (1921), pp. 64-65; a further revision was published in *Municipal Finance*, (1926), p. 72.



- 1600 Grants and Donations
  - 1610 Grants and subdivisions
  - 1620 Donations and gifts
- 1700 Pension Assessments
- 1800 Special Assessments
- 1900 Escheats (state governments only)
- 2000 *Borrowings*
- 3000 *Sales of Properties (Capital Assets)*

An understanding of the foregoing classification requires some explanation of its main classes and subclasses. Revenues, as here used, consist of the moneys coming into the public treasury under such conditions as to increase the current assets of the government without increasing its current liabilities, or without decreasing its capital assets. Thus money secured through borrowings or through the sales of properties are excluded. Unlike borrowings, revenues are increments to surplus which are expendable for the general purposes of the government, subject of course to whatever fund restrictions may exist. Borrowings are receipts derived from the sale of long term bonds; they increase the debt liabilities of the government. Temporary loans and special assessment bonds are not included in this class. The proceeds from the sales of properties—lands, buildings, and major equipment—may not be regarded as revenues, since capital assets are decreased by such sales. However, if the government follows the policy of providing for the acquisition of all properties out of revenues as a part of current expense, there is no apparent reason why proceeds from the sales of such properties should not be used for the same purposes as revenues.<sup>1</sup> The national and state governments usually mingle the receipts from the sale of public domain with their revenues. Moneys obtained from excess condemnation proceedings over and above the cost of acquiring the property may be regarded as revenue.

While the subdivisions under several of the classes of revenues indicate to a certain extent the scope of these classes, some further definition is necessary. Taxes are, in general, compulsory contributions to the support of the government which are levied at regular intervals upon persons, properties, and businesses. The second class—rights and privileges—is not so easily defined; it includes all moneys derived from licenses, permits, franchises, concessions, rents, and royalties. The difference between licenses and permits is one largely of degree; a license allows the exercise of certain *con-*

<sup>1</sup> See above, p. 163 for discussion of the use that should be made of such moneys.

*tinuing* acts or rights, while a permit allows the exercise of certain *temporary* or *specific* acts or rights. Franchises are privileges that allow the continuing use of property, such as city streets, and include the element of regulation. Concessions are privileges granted with respect to special rights or conditions that arise out of the use of public property and differ from licenses and permits in that they have a monopolistic value. Rents are the monetary returns from the use or possession of lands, buildings and equipment belonging to the government. Royalties represent a percentage of the proceeds paid to the government by individuals permitted to develop, use, or operate any property or right belonging to it. The third class of revenues—services and sales—includes fees and proceeds from the sales of services and commodities. Fees represent payment for various services, usually of a minor nature, rendered to private persons by the government. The proceeds derived from governmental operations of a commercial nature are included under sales of services and commodities. The fourth class—interest and premiums—represents revenue derived from the use of money and credit. Interest, as everyone knows, is the charge made for the use of money. Premiums arise when government bonds are sold above par, but receipts from this source should not be regarded as revenue expendable for general purposes since they are essentially a part of the loan.<sup>1</sup> Discount arises when the government purchases bonds or exchange below par. The fifth class—fines and forfeitures—represents compulsory payments which are imposed for statutory offenses and for neglect of official duty. Forfeitures represent the confiscation by the government of deposits held in trust for the purpose of enforcing contracts or of compensating against damages or losses. Penalties are related to both fines and forfeitures and in many cases are indistinguishable. They usually arise out of failure to meet certain legal requirements within a specified period, such as the payment of taxes. Grants and donations, class six of revenues, represent contributions to the government, grants and subventions being contributions on the part of a superior government and donations and gifts being contributions on the part of private individuals or concerns. Class seven, pension assessments, represents assessments levied against government employees under a contributory pension system. Special assessments, class eight of revenues, are levied mainly by city governments on property adjacent to or in the vicinity of improvements to finance all or part of the cost of these improvements. Such assessments are sometimes levied to meet the cost

<sup>1</sup> See *Municipal Finance*, by A. E. Buck and others, 1926, pp. 492-495.

of certain governmental services. The general assumption is that benefit accrues from the improvements or services to the property upon which the special assessments are levied, thus enhancing the value of the property, at least, to the amount of the assessments. It has been argued that special assessments are not revenues, because "they represent the recovery of particular expenditures."<sup>1</sup> Since special assessments are being employed to an increasing extent, especially by city governments, in financing certain improvements and services, they may be regarded as supplementing the general property tax. There is an increasing tendency in the local governments where tax limits exist to transfer certain governmental costs from the general tax levy to special assessments. In this way special assessments give these governments some leeway in meeting their growing demands when their general tax rate has reached the upper limit. Under such circumstances, it seems there can be no doubt that the receipts from special assessments constitute revenue. The United States Bureau of the Census has classified special assessments as revenue in the preparation of its financial statistics of states and cities. The last class of revenues, namely, escheats, represents the reversion of real or personal property to state governments where the owners or heirs cannot be found. Escheats are not ordinarily a source of revenue to local governments. While the United States Bureau of the Census has included escheats in its classification of municipal revenues, the receipts so reported by the cities are not, in the strict sense of the term, escheats.

From the standpoint of their relative importance in financing the government, revenues far outweigh the other classes of income. In recent years, however, an increasing amount of income is derived by both state and local governments from borrowings through the sale of serial or term bonds. Receipts from the sales of properties which constitute capital assets are, comparatively speaking, a very small part of governmental income. The major portion of revenues in all governments—national, state and local—is derived from taxes. Perhaps the next largest source of revenue for most of the state and local governments is the receipts from rights and privileges, especially those from motor and business licenses. The earnings from publically owned utilities and the receipts from special assessments constitute about one sixth of the total revenues of municipal governments. Receipts from the other sources of revenue are compara-

<sup>1</sup> See Francis Oakey, *Principles of Government Accounting and Reporting*, 1921, pp. 91-94, 287-293.

tively small, and as a means of financing most state and local governments, relatively unimportant.

The previous classification of income for state and local governments has been suggested as meeting the requirements of budgeting and accounting in so far as detailed information is concerned. It is now being applied in the city of Cincinnati, where it was adopted practically *in toto* on January 1, 1929. The adoption was brought about largely through the efforts of the local Bureau of Municipal Research.<sup>1</sup>

The writer is aware, however, that some other method of income classification may also meet the requirements of budgeting and accounting and at the same time furnish additional aid to the administrator who has the task of supervising the revenue system of the government. With this in mind, Philip H. Cornick of the National Institute of Public Administration has devised a classification of income, especially applicable to municipalities, the main headings of which are reproduced below.

## I. REVENUES

- 1000 Revenues accruing from the exercise of the taxing power
  - 1100 Taxes levied and collected by the government
    - 1110 On persons
    - 1120 On general property
    - 1130 On special property
    - 1140 On business transactions or activities in general
    - 1150 On specific business transactions or activities
  - 1200 Taxes levied and collected by other governmental units and apportioned to the government
  - 1300 Special assessments
    - 1310 For public improvements
    - 1320 For public services
- 2000 Revenues accruing from the exercise of the police power
  - 2100 Over the monopolistic use of public highways
    - 2110 Franchises
    - 2120 Minor highway privileges
      - 2121 Rentals for space under highways occupied by vaults, etc.
      - 2122 Rentals for space over highways occupied for advertising signs, etc.
      - 2123 Rentals for space in highways occupied by news stands, etc.
      - 2124 Rentals for space in highways

<sup>1</sup> See Appendix V in which the Cincinnati income classification is reproduced. See also "Budgetary Codes of the City of Cincinnati," January 1, 1929.



## PUBLIC BUDGETING

- used for temporary storage of building materials, etc.
- 2200 Over the nonmonopolistic use of public highways
  - 2210 By vehicles for hire
    - 2211 Taxicabs
    - 2212 Buses without exclusive franchises
    - 2213 Freight vehicles
  - 2220 By vehicles for private use
  - 2230 By vehicles for the direct sale of commodities
  - 2240 By operators of vehicles
  - 2250 By peddlers
- 2300 Over individual activities outside of highways
  - 2310 Receipts arising from occupations involving physical or moral hazards
    - 1311 From types and methods of construction
    - 1312 From conditions that may lead to fires and conflagrations
    - 1313 From handling of foods
    - 1314 From places of amusement
    - 1315 From places of public assembly
    - 1316 From establishments engaged in the resale of articles requiring unusual supervision by police officials
- 2400 Receipts arising from the infraction of laws and ordinances
  - 2410 Fines and penalties imposed by courts
  - 2420 Forfeitures of bail bonds
- 3000 Revenues accruing from the exercise of proprietary rights
  - 3100 Income from property
    - 3110 Earnings of public funds
      - 3111 Interest
      - 3112 Premiums
      - 3113 Discount
      - 3114 Penalties imposed for failure to make payments within specified periods
    - 3120 Earnings of publicly owned real estate other than in highways
      - 3121 Rentals of space in parks
      - 3122 Rentals of space in public buildings
      - 3123 Rentals of publicly owned real estate used for public activities
      - 3124 Rentals of publicly owned docks, markets, etc.
      - 3125 Rentals of publicly owned ordinary real estate

- 3200 Income from public activities
  - 3210 Sales of services and commodities
    - 3211 By major publicly operated utilities and services (water, gas, electric, and transportation)
    - 3212 By minor public services (legal, inspectional, and technical)
  - 3220 Receipts arising under contractual agreements, explicit or implied
    - 3221 From employees for pension assessments
    - 3222 From forfeitures of bonds posted for the faithful performance of contracts
    - 3223 Expendable receipts from trusts and endowments
    - 3224 From overlapping or adjoining governmental units in payment for improvements or services<sup>1</sup>
    - 3225 From private individuals or corporations for public services<sup>1</sup>
  - 3230 Auxiliary receipts resulting indirectly from public services
    - 3231 From refuse picking privileges
    - 3232 From advertising privileges on cars and waste receptacles
    - 3233 From sales of discarded goods
- 4000 Revenues derived from voluntary contributions
  - 4100 Subventions and grants from other governmental units
  - 4200 Expendable gifts from private individuals or organizations

## II. PROCEEDS FROM THE SALE OF BONDS

- 5000 Borrowings for general purposes
- 6000 Borrowings for school purposes
- 7000 Borrowings for public utilities

## III. PROCEEDS FROM THE SALE OF CAPITAL ASSETS

- 8000 Sale of real estate
- 9000 Sale of equipment

In the foregoing classification, Mr. Cornick has divided revenues into four general groups which are mainly indicative of the method of accrual rather than the source. According to this arrangement, revenues arise from the exercise of the taxing power, from the exercise of the police power, through the use of proprietary rights, and from voluntary contributions. The government is preëminent in

<sup>1</sup> These two subclasses are frequently regarded by accountants as reimbursements or reductions of expenditures.

the raising of revenue through the exercise of the taxing power and of the police power; its proprietary rights, however, are also enjoyed by private individuals and concerns. Under the taxing power, the taking in of revenue is the main concern of the government, while under the police power revenue is incidental to regulation. However, some economists, like Professor E. R. A. Seligman, argue that from a financial standpoint this distinction between the police power and the taxing power is largely a fiction. There are, of course, many inconsistencies in the opinions of the courts on this point. But it does seem that for the purposes of planning and administering the revenues of the government a distinction can be made, as Mr. Cornick has indicated, which will aid the executive or chief administrative officer. The subclasses represent in most instances the general character or the sources from which the revenues are derived; in this respect the classification may be compared with the preceding one. The three major groups or classes are the same in both classifications.

*Classification by Organization Units or Collecting Agencies.*—The classification of income, particularly revenues, by organization units or collecting agencies is commonly presented in the budgets of state and local governments. The national budget also presents such a classification of revenues. The fact that in most of our governmental units numerous agencies collect revenues in the course of their operations makes this type of classification seem necessary in setting forth a comprehensive picture of the income side of the budget. But the aggregate of such revenues is frequently small compared with taxes and other major revenues which flow directly into the treasury. It is possible, especially in local governments, to make practically all collections through the treasury, a procedure that would add greatly to the public convenience in most instances. Under such arrangement it would be unnecessary to show the revenues classified by organization units. If moneys were dedicated to the use of certain organization units, the treasurer would merely segregate them either by special accounts or by special funds. In the latter case, the fund classification would be adequate as a method of presenting this information.

It is only where the revenues are collected by widely scattered offices that a classification by organization units or collecting agencies is of value. Where revenues are not only collected but retained and expended by the agencies, it becomes necessary to classify such revenues by collecting agencies and to show them as an offset to the total expenditure requirements in gross of these agencies as set forth

in the budget. This is true, for example, of the educational and charitable institutions of many state and local governments which retain the fees that they collect and receive in addition certain appropriations from the general treasury.

*Classification by Funds.*—In discussing the classification of expenditures by funds in an earlier section of this chapter, we pointed out that income should also be classified by funds. The same fund classification is applicable in both instances; the revenues and receipts coming into the public treasury are credited to certain funds and when expenditures are authorized these same funds are drawn upon in making payments. The necessity of analyzing income, as well as expenditures, by funds is obvious from the budgetary standpoint. Appropriations cannot be properly made without knowing the extent to which the income is available for meeting the general expenditures of the government and the extent to which it must be devoted to special purposes. In other words, all fund restrictions applying to the various sources of income must be known.

The classification of income by funds is complementary to the classification by sources; these two classifications are essential if the information relative to the income side of the budget is to be presented in the most informative manner. The classification of revenues by collecting agencies is not necessary, as we have pointed out above, except in certain instances.



## CHAPTER VIII

### THE BUDGET ESTIMATE FORMS

IN ASSEMBLING the information required in the preparation of the budget, estimate forms are practically indispensable. When properly designed, such forms are a great aid to the budget maker in getting together the facts and figures relative to the financial needs of the government. They simplify the task of the spending agencies in stating their requirements; they insure uniformity in the presentation of the budgetary information; and they aid in setting forth the myriads of details—the minutiae of the budget—according to the different bases of classification, which we have explained in the preceding chapter.

In view of these advantages, one would think that every budget making authority would use estimate forms, but such is not the case. There are still a number of state and local governments where regular estimate forms or blanks are not employed in presenting the expenditure requirements or the anticipated revenues of the different departments and agencies. The expenditure requirements, in such instances, are submitted on letterheads and various kinds and sizes of plain or ruled paper. The estimates when prepared in this manner are not only inconvenient to handle and file but there is generally no uniformity in the arrangement of the information.

It is desirable that every government should use uniform estimate blanks in the preparation of the budget and that these blanks should be so designed as to present, at least, the essential budgetary information. With this in view, we shall discuss in the following pages, first, the expenditure estimate blanks now in use, together with certain standard forms which may be adopted by states, cities and counties, and, second, the revenue estimate blanks required for the reporting of moneys not turned into the central treasury.

**The Expenditure Estimate Forms.**—The expenditure estimate blanks now used by the different governments, national, state and local, vary widely as to size, form and general character of the information requested. The size of these blanks range all the way from 8 by 10½ inches, which is smaller than an ordinary page of typewriting paper, to 19 by 25 inches, a size so large as to be almost unwieldy. Some blanks are printed on thin paper, so that several

copies can be made at one time on the typewriter; others are printed on very thick paper and ruled for the use of pen or pencil. The captions of some blanks are very simple; others are elaborate, containing instructions for filling out the blanks. Some blanks, however, contain the instructions on the reverse side.

A single blank constitutes the only estimate form of a number of state and city governments, notably, Virginia, District of Columbia, Detroit, and Indianapolis. Several governments use two forms, one being a summary form and the other a supporting form for details; examples of these are the forms used by the national government and by the cities of Boston and Toledo. State and city governments commonly use three, four, or five forms; a few use a dozen or more forms. Among the latter are New York City with eight regular and four supplemental forms, North Carolina with fifteen forms for state institutions, and Massachusetts with twenty-five forms for state institutions. Several states use a set of forms for institutions differing somewhat from those for departments. New York and New Jersey, as well as North Carolina and Massachusetts, are examples of such states. A different shade or tint of paper is sometimes used to distinguish one form from another; this is the practice, for instance, in New York state. Frequently the estimate blanks are supplied with binding margins, sometimes binding post perforations, so that they can be placed in covers for handling and filing.

There is a wide variation in the information requested on the estimate blanks of the different governments. Some blanks go into great detail, others are more general; some ask for information covering only one year prior to the budget period, others ask for two, three, or four years; some request figures of a cost nature, others omit such data; some provide recapitulation sheets, others do not.

From the foregoing general description of the expenditure estimate blanks now being used by the various governments, it is at once apparent that there is a great lack of uniformity. This is true not only of the blanks themselves but also of the types of information thereon requested. A more detailed examination of some of the typical estimate forms now used by cities, counties, and states will help us to determine the essential features of such forms.

*General Estimate Forms in Use.*—The simplest type of general estimate form is the single sheet which is used for all classes of expenditures. As an illustration of this type, we reproduce herewith (Figure 23) the estimate sheet of the District of Columbia. It can hardly be said that the bare essentials are included on this

form. Only the appropriations for the current year are shown, although when the estimates of the District are subsequently printed in the national budget the expenditures of the previous year are added. The last two columns are for the tentative and for the final action of the three commissioners of the District which is taken prior to the President's budget recommendation to Congress. The district estimate form is similar to that of the national government. The latter form, however, provides for expenditure and appropriation figures covering two years prior to the budget year. It is supplemented by a form which is used to give the details of expendi-

ESTIMATES OF APPROPRIATIONS, DISTRICT OF COLUMBIA, 1928				
General Object of Estimate	Appropriation 1927	Estimate 1928	Commissioners' Tentative Action	Commissioners' Final Action

FIGURE 23. Reproduction of the Expenditure Estimate Form of Washington, D. C.  
(Size 8" x 11"; caption the 11-inch way.)

tures for which lump sum appropriations are granted. Considerable detailed information is furnished which is not indicated on these forms, otherwise they would not be adequate for the purpose. Besides, the Bureau of the Budget issues instructions containing sample forms completely filled out to guide the federal departments and the District of Columbia in preparing their estimates.

Of course, more information may be secured on the single estimate blank than is required by that of the District of Columbia. Several additional columns may be added by increasing the size of the blank. This is what has been done on the forms used by Indianapolis and

Detroit. The Indianapolis form requires some analysis with reference to the activities and subactivities of the spending agencies; it provides space for inserting the appropriation and the actual expenditure for each of the years preceding the budget year. It also asks for the increase or the decrease of the budget request over the appropriation of the next preceding year. However, this information is scarcely worth recording, as it represents merely the difference between an estimate for the coming year and the appropriation for the current year, the latter amount being likewise an estimate rather than the actual figure. Columns are added for the city controller, the mayor, and the city council to use in recording their recommendations, with a last column for the final allowance of the council. This arrangement presupposes that the estimate form will be used as a work sheet until the budget is finally acted upon by the council. This should be the practice only in small local governments; larger units should print the estimates as soon as the budget maker has inserted his recommended figures. In this way sufficient copies can be made available for examination by members of the legislative body and interested taxpayers.

The Detroit form is an improvement over the Indianapolis form in that it asks for information of a more significant character. The actual expenditures for the year preceding the current year and similar figures for the first half of the current year are shown; also the allowance is shown for the current year as a whole with adjustments made through transfers. Additions or subtractions to show increases or decreases are omitted. Columns are supplied for the departmental requests of the budget year and for the recommendations of the budget director. At this point the estimates are printed in their entirety and the printed sheets are used for any subsequent revision, such as that made by the mayor.

Except for small cities, towns and other local governments, the single estimate form seems inadequate. For all states and for the larger cities and counties a series of three, four, or five estimate forms is ordinarily required. The reasons for this will become evident later in the discussion. Where only one form is used, the various items of expenditure should be entered in the order of the object classification and summarized at the end of the last sheet of the form. It is preferable to use a separate sheet of the form for the summary when a number of sheets are required to present the detailed requests. The single estimate form should be designed in such manner as to show considerable detailed information, especially with reference to salaried positions.



CITY of TOLEDO

MAYOR'S BUDGET

For Year 1928

Schedule I -- Expenditure Estimates  
Personal Services

Department of \_\_\_\_\_  
Division of \_\_\_\_\_  
Account No. \_\_\_\_\_

Code No.	CLASSIFICATION	Expense Year 1925	Expense Year 1926	Expense Jan. 1st to Sept. 1st, 1927	Est. Expense Dec. 31st 1927	Total Est. Expense Year 1927	Request for Year 1928	1928 Request Compared with 1927 Estimated Expense	Allowance By Mayor	Allowance By Council
A 1	Supervision									
A 2	Clerk Hire									
A 3										
A 3a										
A 4	Special Service									
	Total									

Detailed Analysis of Above Requests for Personal Services

Code No.	NUMBER AND TITLE OF POSITIONS	Present Yearly Rate	Proposed Rate	Total Amount Requested	REASON GIVE EXPLANATION OF ANY INCREASE REQUESTED OVER PRECEDING YEAR



Two expenditure estimate forms are used by the city of Boston, but with only fair success from the standpoint of budgetary information. The first form serves the purpose of a summary or recapitulation blank as well as an estimate sheet. The entire expenditure classification is printed down the left hand side of this form, the city departments and institutions being required to enter the amounts needed in a column to the right of each item. If no request is made for a certain item, there is no entry. The expenditures made during the current and two preceding years are listed. This can be done since the estimates are prepared near the close of the current year, the expenditures for at least eleven months of that year being available. The second form merely supports the personal service items on the first form. The departments and institutions are required to present on this form a complete list of all employees with rates of pay as of the current year and requested rates for the budget year.

Toledo, Ohio, uses two expenditure estimate forms, which in some respects are superior to the Boston forms. The captions of these forms are reproduced in the accompanying Figure 24. It will be seen from this figure that each form contains space at the top for a summary. This arrangement brings the summary to one's attention before the details, but in so doing it takes up part of the space of every estimate sheet. In the end the summary is a piecemeal affair instead of a complete recapitulation. A separate form for summary purposes would seem to be more satisfactory. Such a form can be placed in any position, either ahead of or following the forms containing the detailed estimates; it can be used for each division or bureau in a department and for the department as a whole. The Toledo forms, it will be noted, furnish in the summary the actual expenditures for one half of the current year and estimated expenditures for the other half, which when combined for the whole year constitute more satisfactory figures for comparative purposes than the appropriations of the same period. The actual expenditures for the two preceding years are also shown in the summary. These comparative figures are not shown in the detailed analyses.

During the summer of 1928 the Cincinnati Bureau of Municipal Research, under the direction of John B. Blandford, Jr., devised a set of expenditure estimate forms for the city government, using as a model the set of forms suggested by the writer. The Bureau's recommended forms were adopted by the city manager and used in the preparation of the city budget for 1929. Four forms constitute the set, the first three being used for detailed information

**Form A**

**CITY OF CINCINNATI**

**EXPENDITURE ESTIMATES FOR THE FISCAL YEAR 19\_\_**

Code No. \_\_\_\_\_ Sheet No. \_\_\_\_\_

DEPARTMENT \_\_\_\_\_

BUREAU OR DIVISION \_\_\_\_\_

Code No.	ORDINANCE PROVISION		Salary Range	COMPENSATION			Last Date of Service	Name of Member of House of Representatives	Allowance by City Manager	Memorandum				
	Classification Title	Spec. No.		Previous Year	Current Year	Budget Year								
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1														1
2														2

**Form B**

**CITY OF CINCINNATI**

**EXPENDITURE ESTIMATES FOR THE FISCAL YEAR 19\_\_**

Code No. \_\_\_\_\_ Sheet No. \_\_\_\_\_

DEPARTMENT \_\_\_\_\_

BUREAU OR DIVISION \_\_\_\_\_

Code No.	OBJECT CLASSIFICATION	PREVIOUS EXPENDITURE		CURRENT EXPENDITURE		REQUEST FOR BUDGET YEAR		Allowance by City Manager	Memorandum					
		Year	Year	Actual	Estimated	No. of Units	Price Per Unit			Amount				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1														1
2														2

**Form C**

**CITY OF CINCINNATI**

**EXPENDITURE ESTIMATES FOR THE FISCAL YEARS \_\_\_\_\_**

Code No. \_\_\_\_\_ Sheet No. \_\_\_\_\_

DEPARTMENT \_\_\_\_\_

BUREAU OR DIVISION \_\_\_\_\_

Code No.	IMPROVEMENT	LIFE Years	ESTIMATED COST	ASSESSED PORTION		CITY PORTION		EXISTING BOND PROVISIONS		Year	Year	Year	Year	Year	Year	
				Year	Class	Authorized	Issued	Existed								
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1																1
2																2
3																3
4																4
5																5
6																6
7																7
8																8

FIGURE 25. Reproduction of Detailed Expenditure Estimate Forms of Cincinnati, Ohio.  
(Three forms; size 14" x 17"; caption 17-inch way.)



(Figure 25) and the fourth as a general summary sheet (Figure 26). The expenditure classification recommended in Chapter VII is employed, with a few slight modifications, in setting up the information on these forms. Form A of the set is for personal services. The information contained in the first ten columns of this form is supplied from the records of the city's personnel department. Each spending agency then fills in column 11, notes such additional employees at the end of the list as it may require, and sees that columns 9, 10 and 11 are properly totaled. Form B includes all other objects of expenditure except permanent improvements. The first six columns of this form are filled out by the city auditor's office, the information being taken from the accounts of the various spending agencies. Each spending agency then supplies the information in columns 7, 8, 9, 10 and 11. Form C is used for major permanent improvements. Each improvement is allotted two lines running across the estimate form, one for the estimate and the other for the allowance. Space is provided at the bottom of each of these three forms for explanatory comment with reference to the items listed thereon. Form D is for summary purposes. On the upper half of this form the annual requirements of each department, bureau or division are summarized by the main classes of expenditure. Below, space is provided for a summary of the five year expenditure program which each spending agency is to develop and to extend one year each time the annual budget is prepared. To the right of this is a small space for a summary of operations from the departmental work program, with unit costs and measures of results. While this space seems inadequate for the purpose intended, it is nevertheless an attempt to bring into the estimates certain cost data on performance. The presentation of this data should be encouraged, as we shall indicate later in this chapter.

The estimate forms of Milwaukee County, Wisconsin, are a good example of the type of blanks adaptable to general county use. There are three forms, as will be seen from the accompanying Figure 27 in which the captions are reproduced. With the addition of a form for recapitulation purposes, this set of forms would be practically complete. The three forms resemble rather closely those of the city of Milwaukee, but the latter has a summary form in addition to the other three forms. It will be observed that the county forms provide for the appropriation of the year preceding the budget year and a comparison of this amount with the request. We have already pointed out that this kind of comparison is unsatisfactory for budgetary purposes. The second form, however, does request

certain expenditure data under the head of "previous experience." These have some value for purposes of comparison.

In general, county authorities have been very backward in prescribing the use of estimate blanks in connection with the preparation of the budget. For this reason, some states, notably North Carolina and Virginia, have designed uniform estimate blanks to be used by all counties within their borders. New Mexico has gone even further and prescribed estimate forms for the use of all local governments within its jurisdiction.

Among the estimate forms used by the various states, we have selected those of New York for reproduction in the accompanying Figures 28 and 29. These forms are simple and at the same time they request fairly complete data. For departmental use the set of forms consists of four blanks. The captions of the first three of these forms are reproduced in Figure 28, while the fourth form is shown in Figure 29. It will be noted that the title of position and name of employee are shown on the form for personal service with comparative figures for the two years preceding the budget year. On the form for maintenance and operation comparative figures are also given, but on the form for new construction and permanent betterments no such figures are requested. In the latter case they have very little, if any, significance. The recapitulation form for departments may be used for schools and colleges, but not for other state institutions. It provides in the caption for listing the number of students and receipts from the sale of products. A summary of the classification is set up in the left hand column. At the bottom of the form space is left for a recapitulation of the personal service of the department by bureaus or divisions. For the charitable, penal and correctional institutions of the state, another recapitulation form is provided. It differs from the one previously described mainly in that it provides columns for the insertion of per capita costs of maintenance and operation for the budget year and for each of the two preceding years. It also provides space at the bottom for a statement of the value of farm products used as food, the value of products secured in exchange from other institutions and used as food, and the value of other farm products. The caption contains space for data on inmate population, number of employees, and number of inmates per employee. There are institutional forms for personal service and for maintenance and operation. The former differs only slightly from that used by the departments; the latter has added columns for the calculation of per capita costs and consists of



		FIVE YEAR EXPENDITURE PROGRAM					SUMMARY OF OPERATIONS Indicate Quantity of Work Unit Costs and Measures of Results				
		Year	Year	Year	Year	Year	ITEM OR UNIT	Year	Year	Year	Year
1	2	3	4	5	6	7	8	9	10	11	12
15	Current Operating Expenses										
16											
17	Permanent Improvements										
18	Special Levy										
19											
20	Special Assessments										
21											
22	Unexpended Bond Funds										
23											
24	Proposed Bond Issues										
25	Class										
26	Class										
27	Class										
28	Class										
29	Class										
30											
31	TOTAL										

EXPLANATORY COMMENT BY DEPARTMENT OR BUREAU HEAD  
 SIGNATURE

FIGURE 26. Reproduction of Summary Expenditure Estimate Form of Cincinnati, Ohio.  
(Fourth form of series shown in Figure 25; same size.)



four sheets, the detailed object classification as applied to institutions being printed in full in the left hand column of these sheets.

While several states provide estimate forms especially for their institutions, the practice is by no means general and it is doubtful whether it should be. The essential information relating to the budgetary needs of an institution can be shown on the same estimate form that a department would use. Per capita and other costs may be submitted on supporting sheets attached to the regular forms. In any event, much more data are required in support of nearly all budgetary requests that can possibly be supplied on any set of estimate forms no matter how designed. To this we shall again refer in this chapter.

In only a few states, notably New Jersey, are there any provisions in the budget law concerning the exact form of the estimate blanks. Experience indicates that such provisions are inadvisable and tend to cumber the budget making authority in securing the information needed in the preparation of the budget. When the law prescribes the contents of the budget document, as it usually does, the form of the estimate blanks is thereby largely determined. In other words, the budget making authority must design the blanks in such a way as to secure the required information. Beyond this there should be no legal requirements as to the form of the estimate blanks. These blanks are merely a means to an end; the budget making authority should be able to change them as frequently as experience warrants and without having to secure an amendment to the law. Of course, when a satisfactory set of estimate forms has once been put into use, it is unwise to change the essential features of these forms any more than is absolutely necessary. The reason for this is obvious.

*Standard Estimate Forms Suggested.*—In view of the wide variations in the existing practice of different state and local governments, it would seem desirable to propose a standard set of estimate forms which may be uniformly adopted by the budget making authorities of these governments. The writer has therefore designed for this purpose five expenditure estimate forms. It will be seen that four of these forms present the detailed information, while the fifth is a recapitulation blank. Each form embodies only what are deemed to be the essential features. The forms are designed for a budget period covering a single fiscal year. In those states where this period extends over a biennium, it will be necessary to add to the forms the proper columns in which to record the requests and the allowances for the additional year. The captions of these forms have been made as simple as possible. When more than one sheet of any form

[illegible]

FIGURE 27. Reproduction of Expenditure Estimate Forms of Milwaukee County, Wisconsin.  
(Three forms; size 12" x 19"; caption 19-inch way.)

is used, space for numbering the sheets consecutively is provided in the upper right hand corner.

Form A (Figure 30) is designed for all personal services of the government. Column 1 is to be used for numbering the items, the numbers running consecutively to the end of each form or its additional sheets. By this means reference to the individual items for explanatory purposes may be more easily and quickly made. The code numbers, as explained in the previous chapter, are to be inserted in column 2. The classification and standard title of each position are to be indicated in column 3. If the government does not have a classified service, whatever title is used to designate the position will then be inserted. Where salaries have been standardized, the salary range may also be shown in column 3. The names of all regular employees should be inserted in column 4, since such names are an aid to the members of the legislative body and the interested public in identifying the positions. At the present time only a few states and cities supply the names of their regular employees; the practice should be more general. Of course, where the government has scores or hundreds of employees engaged in the same work, such as policemen, firemen, or school teachers, there is not much point to listing all the names. It is preferable to list such employees by grades or ranks according to the salaries paid. The same is true of wage earners and day laborers employed by the government. If a regular position is vacant or new, this fact should be noted. Column 5 should be filled out where the salary of an officer or employee is fixed by law or ordinance. It is necessary to know when a salary is so fixed. Under such circumstances, the budget making authority may not eliminate the position or reduce the salary which it carries. In columns 6, 7 and 8 the dates of the year should be inserted in the headings, instead of indicating them as "previous," "current" and "budget." These changes should also be made on the other forms. It is assumed that the estimates will be prepared sometime during the current year, preferably the latter part of that year, and not during the early part of the budget year. The total compensation for the previous year should be inserted in column 6; this information will be available at the time the estimates are prepared. The total compensation for the current year should be inserted in column 7. Although this year has not yet been completed, the total compensation will in most cases be equal to the annual rate. Most governments only change their salary rates once a year, that is, with the adoption of each new budget. If more frequent changes are made in the rates, the compensation should be computed for the

Form A-1 Departmental

PERSONAL SERVICE

STATE OF NEW YORK—DEPARTMENTAL ESTIMATES

of desired appropriations for submission to the Governor through the Division of the Budget

NOTE—There should be given in parentheses present salary of employee when less than that appropriated by the schedule line

Sheet No. \_\_\_\_\_

Department \_\_\_\_\_

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217
---	---	---	---	---	---	---	---	---	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

FIGURE 28. Reproduction of Expenditure Estimate Forms for Departments, New York State.  
(Three forms; size 14" x 17"; caption 14-inch way.)





[illegible]

**FIGURE 29.** Reproduction of Expenditure Estimate Form for Departmental Recapitulation, New York State. (Fourth form of series shown in Figure 28; same size.)

current year according to the changed rates. Should the employee receive any commutation or maintenance in addition to salary, this fact should be noted and the amount estimated in connection with the compensation requested for the budget year. The compensation requested in column 8 for the budget year should represent the maximum amount which the employee may receive during that period. Columns 9 and 10 are reserved for the allowance of the budget making authority and for any memoranda or notes which may be made in connection with the review and revision of the estimates. These last two columns are common to the other forms.

Form B (Figure 31) is to be used for contractual services, commodities, current charges, current obligations, and equipment. The use of the first two columns is the same as has been explained in connection with the preceding form. The purpose of column 3 is to carry the budgetary classification by objects, showing such details as may be deemed necessary for information. It is possible to show in this column by detailed itemization the different objects and things bought or needed by the government. Column 4 is to be used to record the total expenditures of the previous year for each item. These figures can be supplied by a proper analysis of the expenditures of that year. The estimated expenditures for the current year are to be shown in column 5. These figures are arrived at by taking the actual expenditures up to the time the estimates are prepared and adding to these an estimate for the remainder of the year. Usually eight or nine months of the current year will have elapsed by the time the estimates are made up, so that only three or four months will be estimated. Some estimate forms now in use provide three columns in which figures for the current year are shown, one column containing the actual figures for the first part of the year, another column the estimated figures for the last part of the year, and still another column for the total of these two columns. This arrangement seems hardly necessary, unless the budget making authority wishes to follow the computation of the amount estimated for the entire year. It will be seen that neither for the current nor for the preceding year is the appropriation given. Though many of the estimate forms now in use ask for the appropriations for these years, it is apparent that such figures mean little or nothing for purposes of comparison. They represent merely estimates rather than actual expenditures. Furthermore, without highly segregated appropriations it is impossible to fill in these data on the estimate forms. Such appropriations should not be made, as we have pointed out in

STATE (CITY OR COUNTY) OF .....

EXPENDITURE ESTIMATES FOR THE FISCAL YEAR 19...

Use this form for

1000 - Personal Services

Department.....

Bureau or Division.....

Item No.	Code No.	Classification and Title of Position	Name or Number Specify "Vacant" or "New Position"	Law or Ordinance Fixing Salary	Compensation for Previous Year	Compensation for Current Year	Compensation Requested for Budget Year	Allowance by Budget Making Authority	Memo. (Do not write in this space)
	2	3	4	5	6	7	8	9	10
1									

FIGURE 30. Budget Estimate Form for Personal Services.



a previous chapter.<sup>1</sup> The expenditures, actual and estimated at the time the estimates are made, are the only figures that mean anything for comparative purposes. Even these figures cannot be regarded as indicative of the value of the governmental work performed or contemplated. As we shall point out later, other means, such as cost data and compiled facts about results, must be found as a means of judging accomplishment. These should be furnished, wherever available, in support of the information contained on the estimate blanks. Form B provides that the request for the budget year be shown by the number of units, the price per unit, and the total amount. This, of course, can be done only for commodities and equipment. For the other classes, namely, contractual services, current charges, and current obligations, columns 6 and 7 would usually show no entries.

Form C (Figure 32) is specially designed for buildings, structures and other improvements. Requests for these properties can be entered on Form B, but only the very minimum of information can be shown on this form. For this reason it is thought advisable to have a separate form, such as Form C, which will request considerable additional information. Column 3 of this form asks for a description of the structure or improvement. This description must of necessity be very brief, so it is advisable in nearly every case to accompany the estimate blank with a detailed statement, including plans, blue prints, and other supporting data. The location of the project is to be indicated in column 4. Often the construction of a project will continue over three or four years, perhaps longer. In such cases the appropriations previously made for the project would be entered in column 5. Column 6 would show the expenditures to the time the estimate was prepared, and the difference between this column and column 5 would represent the unexpected balance of the appropriation. The estimated total cost of the project would be shown in column 7. This figure may be revised from the original figure when the project was undertaken; if so, there should be some explanation of that fact. The requests for new or additional appropriations are carried in column 8. When a project is being undertaken for the first time, there are no entries in columns 5 and 6 and a new appropriation is requested for the work in column 8. It is the policy of some governments when undertaking a project which will extend over more than one or two years to appropriate to it only the amount of money required to carry on the work during the budget period, subsequent appropriations being made in each

<sup>1</sup> See above, pp. 144-146.

Form B

Sheet No.....

STATE (CITY OR COUNTY) OF.....

EXPENDITURE ESTIMATES FOR THE FISCAL YEAR 19....

Use this form for

2000 - Contractual Services

3000 - Commodities

4000 - Current Charges

5000 - Current Obligations

6000 - Properties (Equipment)

Department.....

Bureau or Division.....

Item No.	Code No.	Classification by Objects	Expenditure for Previous Year	Estimated Expenditure for Current Year	Request for Budget Year			Allowance by Budget Making Authority	Memo. (Do not write in this space)
					Num-ber of Units	Price Per Unit	Amount		
1	2	3	4	5	6	7	'8	9	10

FIGURE 31. Budget Estimate Form for Other than Personal Services.

budget until the project is completed. In this case, additional appropriations would be requested in column 8 sufficient to carry on the project during the forthcoming budget period. Other governments follow the policy of appropriating or setting aside enough money at one time to complete a project, although the work may extend over more than one budget period. If it turns out that the appropriation is insufficient to finish the project, then additional appropriation is requested in column 8.

Form D (Figure 33) is to be used exclusively for the acquisition of land. While it is designed to give the maximum amount of information, it by no means provides for all the data that the budget making authority should have in considering the purchase of land. This form should be supplemented with a statement covering the use that is to be made of the land and the urgency that exists for its purchase. The name of the tract, or the lot number, and the location of the land are to be given in column 3; the number of acres in the tract or the dimensions of the lot in column 4. If there are any buildings on the tract or lot, these are to be indicated in column 5, together with their estimated value. The present assessed value of both land and buildings is to be stated in column 6. Sometimes a governmental agency will take an option on land which it hopes to buy in the near future. The amount of such option and the date it expires should be recorded in column 7. The request for the budget year, which usually covers the entire cost of the land, is made in column 8.

Form E (Figure 34) is designed for summary or recapitulation purposes. It provides space in the caption for the date of filing and the name of the responsible officer approving the estimates. In the case of a bureau or division, the responsible officer would be either the administrative head or a designated officer who would sign the estimates in transmitting them to the departmental head or the budget officer of the department. The latter official, after review and revision of the bureau or division estimates, would prepare a recapitulation blank for the whole department and sign it before sending the estimates to the central budget office of the government. This signature may be regarded as sufficient evidence that the estimates have been reviewed and approved by the proper official of the department. Many state and city governments do not require even so much as a signature on the estimates, while a few go to the other extreme. For example, New Jersey and Baltimore require the estimates to be sworn to before a notary public by the administrative head or other responsible officer of the department, institution,

## STATE (CITY OR COUNTY) OF .....

## EXPENDITURE ESTIMATES FOR THE FISCAL YEAR 19...

Use this form for

6000 - Properties (Buildings  
and Improvements)

Department. ....

Bureau or Division .....

Item No. 1	Code No. 2	Description of Structure or Improvement 3	Location 4	Appropriations Made to Date 5	Expenditures to Date 6	Estimated Total Cost of Project 7	Request for New or Addi- tional Appro- priation 8	Allowance by Budget Making Authority 9	Memo. (Do not write in this space) 10

FIGURE 32. Budget Estimate Form for Buildings and Improvements.



or agency presenting them to the central budget office. A special form for this purpose is printed on the bottom of the summary or recapitulation blank of both the New Jersey and Baltimore estimate forms.<sup>1</sup>

The columnar headings of Form E require no explanation. Only the main classes of the expenditure classification by objects may be inserted in column 2; however, if more detail is required, the first subclasses may also be inserted. The classification by character should also be indicated in this column by superimposing it on the other classification. Below this classification and totals the funds from which the moneys come to support the organization units should be set down and the total amounts for each fund shown opposite in columns 3, 4 and 5. The grand total of expenditures by funds, actual, estimated, or proposed, should equal the grand total by objects and character.

It is suggested that the foregoing expenditure estimate forms, A to E inclusive, be printed on a good quality of white paper, sufficiently tough to stand considerable handling and not too heavy to permit of at least three copies being made on a typewriter by the use of carbon paper. All colored rulings, especially those running across the forms in the direction of the caption, should be omitted. For the use of the typewriter these are unnecessary; besides, they add greatly to the cost of printing the forms. Perpendicular rulings in black are required to divide the blanks according to the columnar headings. The forms should all be the same size, but this size may be varied considerably to suit the fancy of those who design the blanks. Whatever the size, it should conform to some one of the standard sizes which can be cut from regular sheets of paper without loss. Within the range that may be used for estimate forms these standard sizes in inches are as follows: 8-1/2 by 11, 8-1/2 by 14, 9-1/2 by 12, 11 by 17, 12 by 19, 14 by 17, 17 by 22, and 19 by 24. Perhaps the most suitable of these standard sizes for estimate forms is either 14 by 17 or 17 by 22 inches, with the caption running the narrow way of the sheet. Such a size provides ample space for the various columns and is not too large for an ordinary wide carriage typewriter. Only one side of the estimate form should be written on, otherwise it is difficult to make carbon copies. There should be a small margin for binding on the left hand side of each form.

While Forms A to E inclusive are designed to be used alike by state, city, or county governments, it is likely that they may be found

<sup>1</sup> See below, pp. 268 and 311.

STATE (CITY OR COUNTY) OF .....  
EXPENDITURE ESTIMATES FOR THE FISCAL YEAR 19...

Use this form for

6000 - Properties (Land)

Department.....  
Bureau or Division.....

Item No.	Code No.	Name of Tract or Lot Number and Location	Number of Acres or Dimensions of Lot	Buildings on Tract and Estimated Value	Present As- sessed Value - Land and Buildings	Amount of and Date Option (if any) Expires	Request for Appropri- ations Budget Year	Allowance by Budget Making Authority	Memo. (Do not write in this space)
1	2	3	4	5	6	7	8	9	10

FIGURE 33. Budget Estimate Form for Land.

to be too elaborate for some of the small local governments, such as towns, villages, and boroughs. For these small governments, Forms A, B and E should be adequate. In this case, Form B would carry the requests for land, buildings, and improvements, thus eliminating Forms C and D. Such requests are seldom made in these governments, at least, not frequently enough to require special estimate forms. It should be understood, however, when Forms C and D are not used, that the information set forth on these forms when occasion requires is to be supplied on explanatory sheets supplementing Form B.

*Supplementary Expenditure Estimate Forms.*—Some state and city budget making authorities have found it advantageous from the standpoint of more complete budgetary information to use certain forms which are supplementary to the regular forms illustrated and explained above. These supplementary forms relate to the per capita cost of institutions, particularly with reference to the use of certain commodities such as food supplies. They also cover the farm and dairy operations of state institutions and the operations of state industries, usually prison industries, which manufacture goods for state use. Some illustrations of these forms are given below.

New York City has a special estimate form for food supplies, which is supplemented by a form showing per capita cost for the different city institutions. The captions of these two forms are reproduced in Figure 35. It will be seen that the larger form is used to list the food supplies indicated in the left hand column for each city institution, showing the quantities used and the stock on hand as of given dates. The smaller or supplemental forms presents a summary on food consumption for all the city institutions. The names of these institutions are listed at the head of the various columns on the horizontal line under "census statement by institutions." The population of each institution is entered in the space immediately below; then follows the food consumption by "ounces per person per day" and "cost per person per day." These figures are shown for each kind of food for the last six months of the previous year and for the first six months of the current year, the estimates being prepared directly after the middle of the current year. The amount requested for the budget year is shown in the same per capita terms. Following the amount requested is space for the insertion of the amount recommended by the budget examiner. It should be noted at this point that the information contained on these forms is used principally by the budget examiners

STATE (CITY OR COUNTY) OF.....  
EXPENDITURE ESTIMATES FOR THE FISCAL YEAR 19...

Recapitulation

Date Filed..... Department.....  
Approved..... Bureau or Division.....  
Name of Responsible Officer

THE BUDGET ESTIMATE FORMS

Code No. 1	Classification According to Main Classes 2	Expenditures for Previous Year 3	Estimated Expenditures for Current Year 4	Requests for Budget Year 5	Allowance by Budget Making Authority 6	Memo. (Do not write in this space) 7

FIGURE 34. Budget Estimate Form for Recapitulation.





FORM B.—SUPPLEMENTAL—To be attached to Departmental Estimate. FOOD SUPPLIES.

DEPARTMENTAL ESTIMATE, 1929

Department of \_\_\_\_\_

Feeding Class \_\_\_\_\_

Use as a \_\_\_\_\_

NOTE—1. In figuring quantities per person per day, carry to two places and in cost column carry to five places.

2. Do not include either in quantity or cost columns any food produced at an institution and consumed. Whatever is shown on this statement will be considered as bought by the Department.

CENSUS STATEMENT BY INSTITUTIONS					FOOD CONSUMPTION STATEMENT BY INSTITUTIONS											
					Quinces per Person per Day	Cost per Person per Day	Quinces per Person per Day	Cost per Person per Day	Quinces per Person per Day	Cost per Person per Day	Quinces per Person per Day	Cost per Person per Day	Quinces per Person per Day	Cost per Person per Day	Quinces per Person per Day	Cost per Person per Day
Last 6 Months 1927 First 6 Months 1928 Estimated 1929 Approved 1929																
FRESH MEATS Last 6 Months 1927 First 6 Months 1928 Requested 1929 Recommended 1929																
SMOKED MEATS																

FIGURE 35. Reproduction of Expenditure Estimate Form B for Food and Supplemental Form B, New York City. (Form B 19" x 24"; caption 24-inch way. Supplemental Form B 19" x 18".)

in arriving at the amounts which should be allowed the various city institutions for food supplies. This information is available to the members of the board of estimate and apportionment under which the examiners work, if the members want to see it, but it is not printed in the so-called budget document.

North Carolina has a special budget form on which the state institutions report their farm and dairy operations (Figure 36). It shows the acreage under cultivation, the value of the products, and the cost of operation. From these figures it is possible to arrive at the nominal profit or loss of the farm to each institution. A further form (Figure 37) is provided, which shows the relation of farm products to the institution's needs. The principal food products consumed by the institution are listed with the quantity and total value of each. Alongside these figures are listed the quantity and value of the foods consumed by the institution which are produced on the farm with the percentage this bears to the total consumption. Some additional information of a general character is requested on the lower half of this form.

New Jersey uses a form similar to the North Carolina form (Figure 36) in requesting information on the farm and animal industries at each of the state institutions. The total production of food is shown, the amount consumed by the institution, the amount sold outside, the amount canned or preserved, and the amount in stock inventory. The operating expenses are also shown, with the excess of production value over cost. This state also requires a statement to be made up on a special form covering each of the "state use" industries. This statement shows net sales, stock inventory as of a given date, net purchases, freight, selling expenses, repairs, inmate wages, supervision, depreciation, and all other expenses, with net profit or loss.

A few other states secure similar information about their farming and industries. This information is generally used by the budget making authority and its staff agency; it is seldom presented in the budget document, although it is important enough to be summarized and shown in this document.

Another kind of supplementary form should be mentioned in this connection; that is the blank for item explanations. Several state and city governments include such a blank with their regular estimate forms. There is usually nothing more to it than a blank sheet with a brief caption at the top in which may be inserted the name of the organization unit making the estimates and the designation of the regular form to which the explanatory matter applies. This

blank should be the same size as the regular estimate forms; it can then be filed along with these forms. By this method the explanatory statements may be more easily examined than if presented on letter heads or odd sizes of paper as is usually the practice. The explanations should be made by item numbers, an asterisk or other symbol being placed against each item number on the regular forms which carries an explanatory note.

**Revenue Estimate Forms.**—Revenue estimate forms are not ordinarily used by state and local governments except where miscellaneous revenues are collected and retained by the spending agencies. The bulk of taxes, special assessments and other revenues are usually paid into the general treasury of the government. This part of the governmental income may be estimated by the chief financial officer; in fact, the budget laws of a number of states require that the auditor, or the controller, or the controller and the treasurer jointly, must furnish the budget making authority with the estimates of revenues for the budget. The same practice generally prevails in the city and county governments. No revenue estimate form is necessary for this purpose, and as a general rule none is provided. Certain comparative figures with reference to the revenue of the current and the preceding year are uniformly required, but these may be set up on any large work sheet in columns parallel to the estimates for the budget period. In some instances the actual collections for three full years prior to the current year are shown, the purpose being to arrive at the estimate for the forthcoming budget year through a comparison of these years.<sup>1</sup> The revenue estimates apply more particularly to the so-called miscellaneous sources, where a guess based on past experience must be made as to how much is likely to be collected. In the case of taxes, such as the general property tax, where a rate is fixed on a known valuation, the estimate of the yield is merely a mathematical computation, with the deduction of one or more per cent for noncollectibles. It is often valuable to show the revenue estimates or guesses of the preceding year or two, so these can be compared with the actual collections. By these figures it will become apparent if the revenues have been over or underestimated and to what extent. In setting up the revenues for the current year, the same method should be followed as in estimating the expenditures for that period. That is, to the actual revenue collections up to the time the estimates are prepared should be added the estimated collections to the end of the current year, thus arriving at the total for the whole year.

<sup>1</sup> On the methods of estimating revenues, see below, pp. 317-320.



FORM BB 1010

STATE OF NORTH CAROLINA

INSTITUTION

REPORT ON FARM AND DAIRY OPERATIONS

For the Biennium 1927-29

And Proposed for the Biennium 1929-31

(1) ITEMIZATION	(2) OPERATIONS 1927-29		(4) PROPOSED 1929-31	
	Actual 1927-29	Estimated 1928-29	Estimated 1929-30	Estimated 1930-31
<i>Acreage available for cultivation:</i> In field crops In truck and garden In meadow and pasture Idle				
<i>Total Acreage</i>				
<i>If additional acreage needed, why, and carry acreage out under 1929-31:</i>				
<i>Value of Produce:</i> Used as Food Used on the Farm Used otherwise Sold				
<i>Total Value of Produce</i>				

on Farm and Otherwise for 1927-28 at  
at selling prices, use Form BB-1006.

<i>Cost of Operation:</i>				
Supervision (farmer, foreman, etc.)				
Labor (hired)				
Inmate labor (estimated)				
Produce used				
Fertilizers				
Feedstuffs				
Farm and Dairy Supplies				
Farm Implements				
Dairy Equipment				
Motor Vehicles				
Live Stock				
Motor Vehicle Operation				
Repairs and Alterations				
All other Expenses				
Insurance				
Depreciation (4% on Land, Buildings and Fixed Property)				
<i>Total Cost of Operation</i>				
Nominal Profit or Loss to Farm				
Add back Inmate Labor				
Nominal Profit or Loss to Institution				

Itemize Produce used as Food,  
market price, sold for 1927-28

FIGURE 36. Reproduction of Report of Farm and Dairy Operations, North Carolina.  
(Size of form 11" x 11".)

In those governments where the spending agencies are permitted to use certain revenues as a means of financing their expenditures, a special estimate form should be provided for reporting these revenues to the budget making authority. Reproduced herewith (Figure 38) are the revenue estimate forms used by the state of North Carolina and the territory of Hawaii. It will be seen that the department or agency is required to classify the revenues by sources. Columns are provided for showing the revenues, actual and estimated, for the previous year and for the year in progress, and the estimated amounts for each year of the biennium covered by the budget.

A more complete form than either of the foregoing is suggested in Figure 39. This Form F is designed along the same general lines as the suggested expenditure estimate forms described above. It should be printed on the same quality of paper and should be the same size as the expenditure blanks. It should be made out only by those departments and agencies reporting revenues for their own purposes. The code in column 2 should conform to the one shown in the income classification outlined in the preceding chapter.<sup>1</sup> Column 3 shows the revenues by this classification. The legal authorizations, if any, for the collection of the revenues are shown in column 4. The remaining columns provide for the actual receipts of the last completed year, the estimated receipts of the year in progress, the estimates for the budget year, and revision by the budget making authority.

The retention of revenues collected by governmental spending agencies for their individual use should be discouraged. Such procedure militates against sound budgeting. Certain states, notably Massachusetts and Virginia, require that all receipts of departments and institutions must be turned into the state treasury immediately following their collection. This includes tuition and other receipts of educational institutions. It is possible to apply this requirement in practically all the state and local governments. The greatest obstacle in so doing is the self-centered attitude of certain departments and institutions which think they must retain the moneys collected by them if they are to guard their own financial standing. This, of course, is essentially a mistaken idea—one that may be largely attributed to scattered and disjointed administrative organization.

**Instructions for the Preparation of the Estimates.**—Simple instructions for the preparation of the estimates should accompany the forms. It is the practice of some budget making authorities to

<sup>1</sup> See above, pp. 221-222.

print these instructions either in the caption or on the back of each estimate form. The instructions must be very brief in order to print them in the caption, otherwise too much space is required for the caption. They may be printed more in detail on the reverse side of each form, but in this case they usually relate to the particular form on which they appear. Any general instructions must be repeated on each form or presented on a separate sheet. It is perhaps more satisfactory to include all instructions in a folder, either printed or mimeographed, a copy of which is sent with the estimate forms to each spending agency. The national government and several state and city governments follow this practice.

While the instructions should be brief, they should tell exactly how the estimate forms are to be made out. In order that the spending agency may visualize the arrangement and data on the estimates, it is sometimes advisable to show a sample or specimen of the forms properly made out. The national government produces such a specimen in the pamphlet of instructions; several state and city governments make up sample blanks to be used as a guide. In fact, this is about the only way to secure anything like uniformity in the presentation of the information on the estimate blanks where the various spending agencies are responsible for supplying all the data on these blanks. But in many state and city governments where the general accounts have been centralized in one office, it is possible to secure uniform presentation by having this office or the office of the budget staff fill out the estimate forms with the information relative to the past year and the year in progress before these forms are sent out to the spending agencies. These agencies then fill out only the request columns for the budget period. By this method the itemization is determined by one office, hence it is impossible for the presentation to vary to any great extent. The desirability of such procedure is discussed later.<sup>1</sup>

The essential points to be covered in the instructions with regard to the preparation of the estimates are as follows:

1. The final date upon which the estimates should be filed with the budget making authority or its staff agency.
2. The number of copies of the estimates which should be prepared and filed. As we have already indicated, this number varies greatly. The national government requires six copies. New York state requires seven copies, while Illinois, Ohio, and Virginia require two copies. New York City requires four copies and Boston three copies. In most instances the spending agencies are instructed to

<sup>1</sup> See below, pp. 307-309.

FORM 88 10-11

STATE OF NORTH CAROLINA

INSTITUTION

QUESTIONNAIRE ON FARMING  
IN RELATION TO THE INSTITUTION'S NEEDS  
(Answered on Basis Fiscal Year 1927-28)

(1) PRINCIPAL PRODUCTS	(2) CONSUMPTION		(3) PRODUCTION		(6) Per Cent of Consumption Produced
	Quantity	Value	Quantity	Value	
Fresh Meats (beef) (pork) (other)					
Cured Meats (all kinds)					
Milk					
Butter, Cheese and Eggs					
Grain (all cereals)					
Potatoes					
Beans and Peas					
Vegetables (all other than above)					
Fruits and Nuts					
Canned Fruits and Vegetables (including syrups, pickles, etc.)					
Lard (include all fats in consumption)					
Concentrate Feed (for animals)					
Forage, hay, straw, etc., (for animals)					
Waste used as Feed (for animals)					
Fertilizers					

tion; production includes all made and saved on the place.  
or available will do. If you farm for profit report fully



Consumption includes all use at the institution  
Careful estimates, where actual figures are  
on Form BB 1006.

Describe the Farm briefly: (acreage, topography, soil, improvements, equipment)

Describe the Dairy and the Dairy Herd: (number, grade, how housed, how milked, care of product)

Describe other Operations: (hogs, poultry, etc., etc.)

Describe Meat Curing and Lard Making:

Describe Cannery Operations:

Valuation of Farm: Land \$	Improvements \$	Livestock \$	Tractors and Implements \$	Total \$
is Farm and/or Dairy used for Instructional purposes?				

FIGURE 37. Questionnaire on Farming in Relation to the Institution's Needs, North Carolina.  
(Size of form 11" x 11")

retain a copy of the estimates for their files. However, they would probably do this anyway. In general, two copies of the estimates filed with the central budget office would seem to be adequate. The need for a larger number of copies usually grows out of the fact that certain members of the legislative body or of the budget board, which exists in several state and local governments, demand copies of the original estimates for their files.

3. The estimates, if possible, should be made out with a typewriter. This not only insures legibility, but the extra copies can be made as carbons.

4. The requests on the estimate blanks should be made in dollars only, the cents being omitted. Odd cents below fifty cents should be dropped; for fifty cents and above, one dollar should be added. This is the practice in connection with the national budget and several state and city budgets, notably those of Illinois and Milwaukee. Estimates carried below one dollar are of no practical value in budgeting; besides, by dropping the two places for cents something is saved in time, labor, and printing expense. The estimated expenditures and receipts for the year in progress may also be shown in dollars only; there is no point to showing these amounts to the last cent. Even in the case of actual expenditures and receipts the Illinois state budget shows the amounts only to the nearest dollar.

5. The head or other responsible officer of the organization unit or spending agency preparing the estimates should be required to review them carefully, revise them if necessary, and approve the requests by signing the recapitulation form in the space provided in the caption of this blank. A few state and city governments, as we have pointed out above, require the responsible officer or the spending agency to swear to the estimates before submitting them to the budget making authority, but nothing seems to be gained by this practice.

6. The columnar entries on the different forms should be explained in detail, at least, in so far as the spending agency is required to supply them. The general nature of these entries has already been discussed at length in connection with the suggested estimate forms. Sample or specimen estimate forms, as explained above, are an aid in visualizing the columnar entries. It is also important that further explanation and instruction should be furnished with regard to the supporting data which should be furnished with the estimates. These data are discussed in the next section of this chapter.

STATE OF NORTH CAROLINA		ESTIMATES OF THE AMOUNTS OF REVENUES EXPECTED a/c FOR THE BIENNIUM 1929-31									
DEPARTMENT OF EDUCATION		(1)		(2)		(3)		(4)		(5)	
Revenues for a/c General and Special Funds, by Sources Own Receipts by Function, Division or Bureau, and by Sources		Receipts 1927-29 (from comparison)		Expected for 1929-31		Estimated 1929-30		Estimated 1930-31		Estimated 1930-31	
Actual 1927-29		Estimated 1929-29		Estimated 1929-30		Estimated 1930-31		Estimated 1930-31		Estimated 1930-31	
BUREAU OF THE BUDGET Form No. 5A-1000		BUREAU OF THE BUDGET Form No. 5A-1000		BUREAU OF THE BUDGET Form No. 5A-1000		BUREAU OF THE BUDGET Form No. 5A-1000		BUREAU OF THE BUDGET Form No. 5A-1000		BUREAU OF THE BUDGET Form No. 5A-1000	
BUDGET ESTIMATES OF REVENUES For the Biennium beginning July 1, 1929 and ending June 30, 1931		BUDGET ESTIMATES OF REVENUES For the Biennium beginning July 1, 1929 and ending June 30, 1931		BUDGET ESTIMATES OF REVENUES For the Biennium beginning July 1, 1929 and ending June 30, 1931		BUDGET ESTIMATES OF REVENUES For the Biennium beginning July 1, 1929 and ending June 30, 1931		BUDGET ESTIMATES OF REVENUES For the Biennium beginning July 1, 1929 and ending June 30, 1931		BUDGET ESTIMATES OF REVENUES For the Biennium beginning July 1, 1929 and ending June 30, 1931	
Approved by _____		Approved by _____		Approved by _____		Approved by _____		Approved by _____		Approved by _____	
Prepared by _____		Prepared by _____		Prepared by _____		Prepared by _____		Prepared by _____		Prepared by _____	
Fund _____		Fund _____		Fund _____		Fund _____		Fund _____		Fund _____	
Department or Establishment _____		Department or Establishment _____		Department or Establishment _____		Department or Establishment _____		Department or Establishment _____		Department or Establishment _____	
Date Approved _____		Date Approved _____		Date Approved _____		Date Approved _____		Date Approved _____		Date Approved _____	
1928		1928		1928		1928		1928		1928	
ESTIMATED REVENUES		ESTIMATED REVENUES		ESTIMATED REVENUES		ESTIMATED REVENUES		ESTIMATED REVENUES		ESTIMATED REVENUES	
Biennium 1929-1931		Biennium 1929-1931		Biennium 1929-1931		Biennium 1929-1931		Biennium 1929-1931		Biennium 1929-1931	
Fiscal Year 1930		Fiscal Year 1930		Fiscal Year 1930		Fiscal Year 1930		Fiscal Year 1930		Fiscal Year 1930	
Fiscal Year 1931		Fiscal Year 1931		Fiscal Year 1931		Fiscal Year 1931		Fiscal Year 1931		Fiscal Year 1931	
REVENUE RECEIPTS		REVENUE RECEIPTS		REVENUE RECEIPTS		REVENUE RECEIPTS		REVENUE RECEIPTS		REVENUE RECEIPTS	
Biennium 1927-1929		Biennium 1927-1929		Biennium 1927-1929		Biennium 1927-1929		Biennium 1927-1929		Biennium 1927-1929	
Fiscal Year 1929		Fiscal Year 1929		Fiscal Year 1929		Fiscal Year 1929		Fiscal Year 1929		Fiscal Year 1929	
Fiscal Year 1930		Fiscal Year 1930		Fiscal Year 1930		Fiscal Year 1930		Fiscal Year 1930		Fiscal Year 1930	
Fiscal Year 1931		Fiscal Year 1931		Fiscal Year 1931		Fiscal Year 1931		Fiscal Year 1931		Fiscal Year 1931	
TOTAL		TOTAL		TOTAL		TOTAL		TOTAL		TOTAL	
INSTRUCTIONS: 1. Prepare in Triplicate. Send original and duplicate copies to the Bureau of the Budget.		INSTRUCTIONS: 1. Prepare in Triplicate. Send original and duplicate copies to the Bureau of the Budget.		INSTRUCTIONS: 1. Prepare in Triplicate. Send original and duplicate copies to the Bureau of the Budget.		INSTRUCTIONS: 1. Prepare in Triplicate. Send original and duplicate copies to the Bureau of the Budget.		INSTRUCTIONS: 1. Prepare in Triplicate. Send original and duplicate copies to the Bureau of the Budget.		INSTRUCTIONS: 1. Prepare in Triplicate. Send original and duplicate copies to the Bureau of the Budget.	
2. Use separate sheet or sheets for each FUND.		2. Use separate sheet or sheets for each FUND.		2. Use separate sheet or sheets for each FUND.		2. Use separate sheet or sheets for each FUND.		2. Use separate sheet or sheets for each FUND.		2. Use separate sheet or sheets for each FUND.	

FIGURE 38. Reproduction of the Revenue Estimate Forms of North Carolina and the Territory of Hawaii.  
(Size of each form 11" x 11")

7. Finally, a copy of the expenditure and the income classifications adopted for use in setting up the budgetary information should be included in the instructions. A copy of the budget law or ordinance, or excerpts of the important provisions, should also be included. The spending agencies oftentimes find it necessary to refer to these in the course of preparing the estimates. Some state and city governments supply with the expenditure classification an elaborate coded index or list of the various objects and things purchased by the government. It is questionable, however, if such an index can be used to advantage except by the central accounting office of the government.

**Data Supporting the Expenditure and Income Estimates.—**

Before concluding this chapter, we should discuss briefly certain data which are valuable as a supplement to the information contained on the estimate forms.<sup>1</sup> These data relate mainly to expenditures, principally to those expenditures growing out of current operation. A great deal of time and effort has been spent in analyzing expenditures on the per capita basis. As applied to the financial requirements of governmental institutions, per capita figures have some significance. They, at least, furnish a ready method of comparing the expenditures of institutions performing the same types of services. But they do not tell the whole story. Cost figures are necessary if the budget maker is to have before him a picture of what each department or institution does with the money it spends; in other words, how it uses the things which it buys in the course of its operation. Such figures are not available for many of the governmental services at the present time, but it is possible to apply cost accounting much more widely than has yet been done.

*Cost Data.*—We have already referred to a notable attempt to bring cost data into the budget of New York City for 1913 and the two subsequent years.<sup>2</sup> These cost data related to three public works functions in the Borough of Richmond, namely, street cleaning, sewer maintenance, and street repairs. For each of these functions the estimated expenditures were designated in terms of the objects or things to be purchased to carry on the work, that is, in terms of salaries and wages, supplies and materials, and plant and equipment. These figures, which were ordinarily shown on the expenditure estimate forms, were then transposed into cost figures estimated on the basis of the work program of the current year.

<sup>1</sup> The general nature of these data has been indicated in Chapter VI. See above, pp. 170-171.

<sup>2</sup> See above, pp. 170-171.

STATE (CITY OR COUNTY) OF.....  
 REVENUE ESTIMATES FOR THE FISCAL YEAR 19...

Use this form for  
 Revenues other than those  
 paid into the Treasury

Date Filed..... Department.....  
 Approved..... Bureau or Division.....  
 Name of Responsible Officer.....

Item No.	Code No.	Classification by Sources	Legal Authorization	Receipts for Previous Year	Estimated Receipts for Current Year	Estimated Revenue for Budget Year	Revised by Budget Making Authority	Memo. (Do not write in this space)
1	2	3	4	5	6	7	8	9

FIGURE 39. Budget Estimate Form for Revenue.



Perhaps it would be more correct to say that the cost figures were first arrived at and then transposed into the estimates of objects or things to be bought. In other words, the estimated expenditures were actually based upon cost analyses developed through a system of cost accounting in connection with a work program which controlled the actual performance of the work.

To illustrate the methods by which cost data were set up in the New York City budget for 1913, we reproduce herewith (Figure 40) the summaries for that year as they applied to street cleaning and to sewer maintenance in the Borough of Richmond. It will be seen from these summaries that the services were divided according to their main activities, such as street sweeping, street flushing, refuse collection, refuse disposition, snow removal, etc. Suitable units of measure were selected for each activity. The quantities in terms of these units both of present work and additional new work were set down in two columns, the total quantities being shown in a third column. The average cost per unit was then stated and the total cost arrived at by the simple process of multiplication. As a final step, the total cost was transposed into the figures contained in the three columns on the extreme right of the table, which represented the services and things to be bought in order that the work might be performed. In this manner the cost data were definitely linked with the budget estimates.

Cost figures growing out of current operating experience undoubtedly constitute a valuable source of information in the preparation of the budget, but such figures should not be used as the basis of appropriation. This is the mistake that New York City made; the entire summary schedules which we have noted above were fixed in the appropriation ordinance and could not be changed during the year except by authority of the board of estimate and apportionment (*i.e.* the principal legislative body of the city government, now the upper house of the "municipal assembly"). The legislative restrictions went even further than this: the figures appearing in the summary for each function were segregated by quarters of the budget year, thus constituting an annual work program, and this quarterly segregation was also made a part of the appropriation ordinance. With a work program formulated several months before the beginning of the budget year and its details fixed by legislative enactment, it is not difficult to understand why the so-called "cost data" budget of New York City failed. However, we shall take this matter up in more detail in a subsequent chapter.<sup>1</sup>

<sup>1</sup> See below, pp. 460-462.

*Data on Performance and Accomplishment.*—The work program for the current year, where the administration prepares such a program, is a valuable aid to budgeting the forthcoming year. By comparing the work program with the budget estimates made for the current year, it is possible to show what has actually happened due to changed conditions or requirements in making the expenditures during the year. This has a direct bearing upon the financial needs of the succeeding year. Each organization unit of the government may be required to accompany its estimates with a graph showing its expenditures by months or quarters for the preceding year and for the current year in so far as the latter year has been completed at the time the estimates are prepared. The budgetary allotments for the current year, according to the work program of the organization unit, should also be shown on the same graph, so that a comparison can readily be made between the program and the actual expenditures.<sup>1</sup>

The data supporting the expenditure estimates should, if possible, cover more than the mere operation of the spending agencies; they should indicate the actual accomplishments resulting from the service. It is one thing to know that a service is being performed economically and effectively, but it is an entirely different thing to know what benefit the public is deriving from the service—whether or not it is actually worth while. All the salient facts that can be brought together which bear upon the results of governmental services would doubtless be a great help to the budget maker in deciding upon the detailed requirements as presented in the estimates. A method of assembling these facts so they can be presented in some systematic form along with the budget estimates should be developed.

*Data Concerning Publicly Owned Utilities and Industries.*—The estimates of government owned and operated utilities or other enterprises of a commercial nature should be accompanied with certain information not required of an ordinary department or agency. Charges for the services of utilities are frequently fixed at rates which will produce enough income to make them self-supporting. Figures should be furnished with the estimates to show in the case of each utility whether this is true. Unit costs for the various

<sup>1</sup> These graphs are usually prepared as an aid in administering the allotments for the various organization units. Supplying them with the estimates or reproducing them in the budget document is therefore an easy matter and does not entail additional work. For an illustration of such graph, see below, p. 515.

## COST DATA FROM THE NEW YORK CITY BUDGET FOR 1913

Functional Work Classification	Departmental Service						
	Work Quantities			Average Unit Cost	Item Cost	Total Cost	Distribution
	Units of Measure	Present Work	New Work				
<i>Street Cleaning</i>							
Street sweeping	Miles	27,014.3	-	28,000	\$3.37	\$94,423.51	\$ 90,710.57
Street flushing	Miles	-	1,500.	1,500.	1.37	2,050.00	1,800.00
Refuse collection	Cu. Yds.	108,905.	-	115,000.	.64	73,526.00	57,953.51
Final disposition - dumps	Cu. Yds.	90,764.	-	79,000.	.07	5,900.00	5,380.59
Final disposition - destructors	Tons	9,244.720	8,755.28	18,000.	1.04	18,660.00	17,506.29
Snow removal	Cu. Yds.	42,190.	-	43,600.	.20	8,720.15	8,057.43
Cleaning sidewalks, gutters, etc., of snow and mud	Miles	1,821.31	-	1,900.	5.72	10,861.00	10,622.03
Asking and sanding streets	Cu. Yds.	1,524.9	-	1,600.	2.69	4,307.00	3,504.18
Light repairs, macadam	Cu. Yds.	3,480.14	-	3,500.	3.66	12,794.00	8,892.50
Weeding	Per C. Sq. Yds.	292,257.	-	200,000.	.85	1,697.00	1,668.19
Miscellaneous	-	-	-	-	-	4,349.00	3,883.69
Inter-Bureau	-	-	-	-	-	4,995.00	4,582.30
Totals for Year						\$242,282.66	\$206,898.97
							\$32,994.17
							\$2,389.52

Functional Work Classification	Departmental Service							
	Units of Measure	Work Quantities		Average Unit Cost	Item Cost	Total Cost	Distribution	
		Present Work	New Work				Payroll Charges	Material and Supply Charges
<i>Sewer Maintenance</i>								
Sewer, cleaning	Lin. ft.	161,700	1,000	0.49	7,972.30		7,646.90	162.70
Sewer, repairs	Lin. ft.	50	450	3.95	1,975.00		1,640.00	320.00
Manholes, cleaning	Number	1,780	75	2.21	4,099.55		3,931.15	92.75
Manholes, repairs	Number	85	80	11.56	1,907.40		1,278.75	613.80
Basins, cleaning	Number	8,300	1,725	3.11	31,177.75		30,375.75	601.50
Basins, repairs	Number	120	—	37.41	4,489.20		3,478.80	973.20
Flush tanks, examined	Number	4,900	600	.339	1,864.50		1,804.00	38.50
Flush tanks, repairs	Number	120	80	6.75	675.00		541.00	128.00
Culverts, cleaning	Lin. ft.	20,100	—	.172	3,457.20		3,356.70	60.30
Culverts, repairs	Lin. ft.	2,200	—	2.20	4,840.00		3,652.00	1,144.00
Open drains, cleaning	Lin. ft.	64,000	—	.045	2,880.00		2,752.00	64.00
Cleaning inlets (snow)	—	—	—	—	1,632.78		1,632.78	—
Sewer connection, inspection	Number	509	—	1.57	800.00		800.00	—
Rip rapping, outlets	Cu. Yds.	—	—	—	—		—	—
Totals for Year					\$67,770.68	\$62,909.83	\$4,198.75	\$662.10

FIGURE 40. Cost Data Estimates for Street Cleaning and for Sewer Maintenance in the Borough of Richmond.  
(Taken from the New York City budget for 1913, pp. 744aa and 744bb.)

operating phases of each utility are also of assistance in budgeting its needs.

Complete figures should be supplied with the estimates on the production and cost of operation of all institutional, agricultural and shop industries. Special budget forms, as we have explained above, are often used to secure these figures. Where services are furnished to the public on a pay basis in connection with the activities of departments or institutions of the government, information should be supplied with the estimates to show whether or not these services are self-sustaining, assuming that such is the policy.

*Construction Projects.*—We now turn to the data which should be offered in support of the estimates for construction projects. General maps and diagrams showing the location of proposed projects are an aid to budgeting. The annual construction work on a state highway system can be more quickly and easily grasped if shown on a map of the state. The highway routes can be marked in such a way as to indicate the sections which have been completed, the sections under construction, and the sections to be constructed during the budget period. Renewal work may also be shown on the same map. In a similar manner street construction and renewal work can be shown on maps or plans of the city. In constructing various kinds of improvements in cities, such as street openings and widenings, parks, playgrounds, school buildings, civic centers, transportation lines, etc., maps can be used to an advantage in setting forth the projects. In fact, such maps are indispensable in showing the areas or zones over which special assessments are frequently spread to finance all or part of the cost of local improvements.

On specific construction projects, engineers' and architects' plans and figures should be supplied with the estimates. Where a project is part of a major improvement, it should be shown in relation to the whole plan by means of a map or drawing. For example, in adding buildings or units to an institutional plant a diagram of the entire plant should be presented showing the part that has been completed and the projected buildings in relation to the future plan of development. If no such plan has been worked out, then it should be done; only in this way can systematic and economical development be brought about. This is particularly true of educational, charitable, correctional and penal institutions. Complete floor plans of individual buildings should be furnished with the estimates. The 1928-29 school budget of the city of Detroit, for example, supplies floor plans of all school buildings to be erected during the budget year. It also furnishes supplementary information which is



helpful in determining the need for each school building, although it does not set forth many facts that are really significant in connection with the housing of the school system.<sup>1</sup> As an illustration of the general character of this information, the following is quoted from the budget.

#### GROUP I—ELEMENTARY SCHOOLS

##### STATE FAIR—CARDONI SITE—Nolan Intermediate School Relief

###### *Boundaries*

The district from which this school will draw its membership is bounded by Eight Mile Road on the north, Dequindre Street on the east, Seven Mile Road on the south, and John R. Street on the west.

###### *Present Situation*

A survey indicates that 1,001 children of elementary grade live within this district. Of this number 984 are now housed in the Benjamin A. Nolan Intermediate School at Hawthorne and Outer Drive, and in the temporary buildings on the Nolan site. The Nolan Intermediate, a school as yet lacking a health unit, has a capacity of 1,400 and a membership (including 984 elementary pupils) of 2,028. The present membership of intermediate school pupils at the Nolan is 1,044. It is estimated that the number of seventh, eighth and ninth graders in this school will be about 1,250 during the coming semester. It is therefore evident that provision should be made for the removal of the 984 elementary pupils at the earliest moment possible.

###### *Growth*

This is a rapidly developing community. The growth in school membership from 1925 to 1926 was 31.5, and from November, 1926 to November, 1927, was 91.1.

There are in this district at the present time 173 single houses and 5 duplexes which are unoccupied or under construction. There are also many vacant building lots in this area.

The crowded condition at the Nolan Intermediate and the outlook for continued growth makes the need for a new elementary school urgent. The site selected is one block north from the Nolan School and almost exactly at the center of the district.

###### *Recommendation*

Erection on a site at State Fair and Cardoni of a complete 24 section elementary school building, capacity 1,360.

###### *Estimated Cubage and Cost*

Estimated cubage—1,127,970

Estimated cost at 36 cents per cubic foot—\$406,069.

*Public Debt Requirements.*—Public debt requirements do not usually relate to the estimates of the various governmental spending

<sup>1</sup> See "Construction of School Buildings in the Towns and Smaller Cities of New York," Report of the Special Joint Committee on Taxation and Retrenchment, Legislative Document No. 60, February 1, 1929, Part II, especially pp. 15-20.

agencies; rather they are charges on the government as a whole. For this reason they are usually determined separate and apart from other estimates, although they may be included in the expenditure totals of the fiscal department or office which is charged with the retirement of the bonds and the payment of interest. Debt redemptions and interest charges, unlike other estimates, can be calculated exactly, if the proper method is followed. There should be no difficulty in arriving at the requirements for serial bond retirements or interest payments. The computation of sinking fund installments, however, is somewhat more complicated. Such installments should be computed each year, if the legal provisions under which the bonds have been issued permit this to be done. In this way the condition and earning of each sinking fund can be taken into consideration annually and the amount of the installment adjusted accordingly. Computations of the debt requirements should be made by the budget officer or the chief accounting officer of the government and the detailed work sheets should be preserved for future reference.

*Data with Reference to Income.*—There are certain data which should be furnished in support of the income estimates. In calculating the income for the budget period, the surplus or deficit at the beginning of this period should be known. This figure is arrived at by the use of a fund balance sheet which sets forth the condition of each governmental fund on the first day of the budget period. Of course such figure will be an estimate until the year in progress has been completed, but it will usually be based upon nine or ten months' actual experience, depending upon when the budget is formulated. The sources of revenue which are more or less constant for the budget period are often calculated on the basis of the collections of prior years.<sup>1</sup> This assumes that accurate figures are available for these years. Data with reference to economic and industrial conditions are often valuable in this connection.<sup>2</sup> Where special assessments are used as a means of financing the cost of local improvements, information should be supplied as to the method of spread and the areas or zones assessed should be clearly indicated on maps. If assessment districts overlap, it is important to know the amount that has already been assessed on the property. In some cities this situation presents quite a problem. To compute the general property tax, which is the flexible source of revenue especially in local governments, it is only necessary to have the total valuation

<sup>1</sup> See below, pp. 317-320 for methods of estimating revenues.

<sup>2</sup> See above, pp. 155-159.

of the taxable property. The computation of the tax, however, is one thing; its collection is quite another. If the tax base to which the rate is applied includes personal property, a considerable percentage of the levy will almost invariably prove to be incollectible. If the methods of valuation are inadequate, the courts may set aside individual valuations or reduce them by substantial amounts. Each of these factors may reduce the actual tax collections below the requirements which had been estimated when the tax rate was struck. So the process is not as simple as one might think at first blush. Finally, when the budget is to be financed in part by the issuance of bonds, the budget making authority should be supplied with complete data as to the redemption requirements of the existing debt, if any, so that a plan of spreading the retirement of the proposed loan over future years may be properly worked out.



PART III  
THE BUDGET MAKING PROCEDURE





## CHAPTER IX

### THE BUDGET MAKING AUTHORITY AND ITS STAFF AGENCY

THE budget making procedure includes the preparation and bringing together of the estimates, both of expenditures and income, the review and revision of these estimates, the framing of the budget, the approval of the budget, and the voting of the budget bills. Obviously, the different steps in this procedure must be carried out by some governmental agency. If we stop to analyze these steps, we will see that they involve both executive and legislative functions. Some are distinctly executive or administrative in character; others are distinctly legislative. For example, the preparation of the estimates is an administrative matter, while the voting of the budget bills is a legislative matter. But the nature of the intervening steps between these two extremes is not so clear, especially if we search the budgetary experience of this country for an answer; at one time each of these steps has been performed by a legislative agency, at another time nearly every one of them has been performed by an executive or administrative agency. However, the recent trend of budgetary development suggests the possibility of drawing a line between those steps in the budget making procedure which are in practice essentially executive and those which are legislative in character. This line of demarcation assigns to the executive the preparation, review and revision of the estimates and the framing of the budget plan; it assigns to the legislative body the examination, revision, and approval of the budget plan and the enactment of the budget bills to carry this plan into effect.

Of course, this division of the budget making procedure into two stages, the first of which may be designated as the *formulation of the budget* and the second as the *adoption of the budget*, is not rigidly followed in practice, as we have already indicated in Part I. The executive does not generally perform all the duties involved in the first stage, nor does the legislative body confine itself strictly to those pertaining to the second stage. Furthermore, these two agencies do not work at budget making in separate, noncommunicating compartments; there is, or ought to be, some coöperative relationship between them, particularly in the second stage.

**The Budget Making Authority.**—The governmental agency charged with carrying through the first stage, that is, the series of steps leading up to and including the formulation of the budget plan for submission to the legislative body, is designated for the purpose of this discussion as the *budget making authority*. In the previous chapters we have frequently referred to this agency as the “budget maker,” as well as the “budget making authority.”

In the United States, particularly in the state and local governments, the budget making authority is of three general types: the executive type, the board type, and the legislative type. These types may be briefly defined in the following manner. The executive type makes the chief administrative officer of the government—the governor, the mayor, or the manager—responsible for the formulation of the initial budget plan. The board type places this responsibility on a designated board or commission, usually consisting of administrative officers, but sometimes of both administrative and legislative officers; the legislative type places it on some committee or officer of the legislative body. A brief discussion of each of these types follows.

*The Executive Type.*—The executive type of budget making authority is by far the most popular of the three types and is increasingly becoming more so. The national budget system has this type of authority, namely, the President. The budget laws of two thirds of the states now require the governor to prepare and initiate the budget in the legislature. However, as yet, he is little more than the nominal budget making authority in perhaps half of these states. This is due mainly to two things: in the first place, he does not have the proper staff assistance and the necessary information to formulate the budget; in the second place, he is not in a commanding position with respect to the administrative organization of the state government so that he can properly execute the budget when it has been adopted by the legislature. The recent movement toward administrative reorganization and consolidation has, however, greatly strengthened the governor's position as the budget making authority. This is the case in a dozen or more states which have already adopted more or less complete reorganization plans.<sup>1</sup> The executive type of budget making authority has spread rapidly in the cities within the past ten or fifteen years largely as a result of the adoption of the newer forms of city government—the centralized mayor form and the manager form. But as yet, this type has not found favor with

<sup>1</sup> See A. E. Buck, *Administrative Consolidation in State Governments*, 4th edition, January, 1928, published by the National Municipal League.

the county governments mainly because of the archaic and administratively irresponsible organization that exists in these governments throughout practically every state in the Union. The fact is that counties have been very backward in adopting budgetary methods; usually they do so only when required by state legislation. The general lack of executive direction and leadership in existing county organization has undoubtedly had something to do with retarded budgetary development in these units of government.

But let us turn for a moment from the practical to the somewhat theoretical side of this subject. It is the consensus of opinion among those who have studied the problems of public budgeting that responsibility for the initial budget plan should rest upon the chief executive or administrative officer of the government. We cannot quote a more convincing statement on this point than the opinion of René Stourm, the noted French writer on the budget.

The executive alone can and should do this work [prepare the budget]. Situated at the center of government, reaching through its hierarchical organization to the smallest unit, the executive more than anybody else is in a position to feel public needs and wishes, to appreciate their comparative merits, and accordingly to calculate, in the budget, a just appropriation which each of these needs and wishes deserves. Others may know certain details as well, possibly better than the executive, but nobody can have so extensive and impartial a view of the mass of these details, and no one can compromise the conflicting interests with so much competence and precision. Moreover, the executive, charged with the execution of the budget, is compelled, through concern as to his future responsibility, to prepare as well as possible the plan.<sup>1</sup>

Of course, when M. Stourm wrote this passage in 1913, or perhaps earlier, he had in mind only the budget systems of European countries: budgetary development had scarcely begun in this country at that time. His generalizations were therefore based upon European experience, but this experience was ample, in fact, abundant. In the case of England, it extended back over a period of more than two hundred years. The experience of the United States for the past fifteen or twenty years, if viewed in the large, certainly gives no substantial ground for an opinion different from that expressed by M. Stourm. This is evident from the stand taken by American writers on the budget, who have practically without exception endorsed the executive type of budget making authority.<sup>2</sup> They are convinced that this type is the only one that fully measures up to the two essential requirements of the budget making authority,

<sup>1</sup> René Stourm, *The Budget*, translation of 7th edition, 1913, pp. 53-54.

<sup>2</sup> Perhaps the most notable among these is Frederick A. Cleveland.

namely, (1) it should be an administrative rather than a legislative agency, and (2) it should be the same agency which is responsible for the execution of the budget, that is, the directing head of the government. The board and legislative types, they maintain, fall short of these requirements, especially with respect to the carrying out of the budget plan. In the face of this opinion, why, we may ask, have the latter types been established in this country? Largely, it appears, to meet local conditions where political expediency was uppermost. These types were created and will continue to exist mainly because of the archaic governmental organization and methods which abound in many of our state and local units.

Before going on to discuss the board and legislative types, we should mention one thing respecting the executive type in certain states. The budget laws of North and South Carolina require the chairmen of the legislative committees handling appropriations and means of financing the budget to sit with the governor at the public hearings on the budget estimates. They may advise with him upon the financial requirements of the various spending agencies, but responsibility for submitting the budget plan to the legislature is placed squarely on the governor. In Virginia it is the practice for the governor to invite five members of the legislature to advise with him on the preparation of the budget. For the same purpose, the governor of New Jersey invites the state comptroller and the state treasurer, both of whom are appointed by the legislature. No valid objection can be made to this practice so long as the governor is left free to make his budget recommendations to the legislature and is unhampered in carrying out the budget plan. Under these conditions, such practice, although based upon legal provisions, does not restrict the executive authority in budget making.

*The Board Type.*—The board type of budget making authority is found in several states and a number of local units of government. It is constituted in either of two ways: wholly of administrative officers, or of administrative and legislative officers. Of the fourteen states having the board type at the present time, ten have budget boards or commissions consisting entirely of administrative officers. Most of the members of these budget making agencies are ex officio; in some instances, however, the governor appoints certain members who have no other administrative duties. The governor, in nearly every case, is a member of the budget board or commission. Usually the elective administrative officers of the state government are also members, although they may not all be included. The West Virginia board of public works, which is required by constitutional



amendment to prepare the state budget, is an example of a budget making authority that includes all the elective state officials, namely, the governor, secretary of state, auditor, treasurer, attorney general, superintendent of public schools, and commissioner of agriculture. There are four states, as we have indicated above, which have representatives of the legislature on their budget boards.<sup>1</sup> The chairmen of the senate and house appropriations committees, or of the ways and means committees, or of both, are usually members; sometimes other legislative officers are also members. In every instance the governor is a member. An example of such budget making authority is the state board of public affairs of Wisconsin, which is composed of the governor, secretary of state, president of the senate, speaker of the house, chairmen of the senate and assembly finance committees, and three members appointed by the governor with the senate's approval.<sup>2</sup>

Among the cities, there are a number—some of them large cities—that have so-called boards of estimate, or estimate and apportionment, which serve as the budget making authority. These boards are generally composed of the heads of the more important departments of the city administration and certain representatives of the council. Notable among the cities with such boards are New York, St. Louis, Baltimore, and Milwaukee. The board of estimate and apportionment of New York City consists of the mayor, the comptroller, the president of the board of aldermen, and the five borough presidents, the first three members being elected at large and casting nine out of a total of sixteen votes allowed the board. Under the home rule act recently adopted, this board constitutes the upper house of the "municipal assembly"; it not only formulates but votes the so-called budget of the city government. Its action is subject to approval by the board of aldermen, but this approval is usually a most perfunctory matter. What we have therefore in the case of New York City is a hybrid budget making agency, a cross between the board type and the legislative type. It is in reality similar to the commission in the commission governed cities, which combines the executive and the legislative functions in one and the same body. A more clear-cut example of the board type of budget making authority in cities is the St. Louis board of estimate and apportionment; it consists of the mayor, the comptroller, and the president of the board of aldermen.

<sup>1</sup> See above, p. 28. Also see Appendix I.

<sup>2</sup> The 1929 legislature of Wisconsin has just passed a law which contemplates making the governor the sole budget making authority.

Passing mention should be made of some rather unusual agencies of the board type which are concerned with the supervision of budgeting in certain local governments. Notable agencies of this kind are the board of estimate and taxation of Minneapolis and the tax supervising and conservation commission of Multnomah County, Oregon. The Minneapolis board consists of the mayor, city comptroller, chairman of the ways and means committee of the city council, a representative of the board of education, a representative of the board of park commissioners, and two elective members. This board has power to review the budget estimates and to fix a maximum amount that can be raised by taxation for each of the thirty-seven city funds. In this way, it becomes the coördinating agent for some five separate tax levying bodies within the city government. The tax supervising and conservation commission of Multnomah County consists of three members appointed by the governor of the state. Its duty is to pass on the budgets of all governmental units within the county, the largest and most important of which is the city of Portland. This commission may not increase budget items, but it may reduce or eliminate them. The executive functions of both the Minneapolis board and the Multnomah County commission are performed by secretaries. We may also mention in this connection the county budget commission recently established in each county in Ohio. It is composed of the county auditor, the county treasurer, and the prosecuting attorney. It has authority to review the budgets of all governmental units within the county, to determine the tax rates on general property within certain legal limits and to revise the local budgets accordingly.

The main weakness of the board type of budget making authority is its lack of unified control over the carrying out of the budget plan. In most cases it is part and parcel of complicated and maladjusted governmental machinery. It appears to go with the archaic forms of state organization and with the older forms of city government, such as the decentralized mayor and the commission forms. As state governments have reorganized their administrative machinery, the board type has almost invariably given place to the executive type.<sup>1</sup> The same thing has taken place in city governments where the strong mayor and the manager forms have superseded the older forms.

*The Legislative Type.*—The legislative type of budget making authority, that is, a committee of the legislative body, may be re-

<sup>1</sup> See Appendix I for table showing recent changes in this respect in the various state governments.

garded as the original type of such authority. It existed in some form in all our governmental units long before budgeting, in the sense we now use the term, was even thought of as a proper and necessary procedure of government. Legislative committees in those days collected the expenditure requests, put them in the form of bills and submitted them to the legislative body for its action. This was a harum-scarum method of financing the government, as we have pointed out in the beginning of the second chapter. It usually took no account of the anticipated revenues or their relation to the proposed expenditures; in short, it was planless. When budgetary procedure was adopted, these legislative committees were not in a position to formulate the budget plan. They did not have the necessary time to make such a plan and they lacked contact with the actual work of government. So they were superseded by the executive and board types of budget making authorities in so far as the formulation of the initial budget plan was concerned, although they remained as an agency to review that plan for the whole legislative body.

While the legislative type of budget making authority has not yet vanished, it is fast going. It is to be found only in the state of Arkansas, a few cities, and several smaller units of government. The Arkansas budget law requires a specially constituted committee to prepare the budget for the legislature. This committee is composed of seven members of the house named by the speaker and five members of the senate named by the president. The state auditor's office acts as a kind of staff agency in bringing the budget estimates together for this committee. The most notable examples of cities with the legislative type of budget making authority are Chicago, Los Angeles, San Francisco, Providence, and Atlanta. In Chicago the budget is prepared by the finance committee of the council through the aid of a permanent staff agency. The mayor has practically nothing to do with the budget until the appropriation ordinance is presented to him for approval after it has been voted by the council. In the other cities mentioned above, the budget is prepared by the finance committee of the council, but with only temporary staff assistance. With the modernization of these governments, this type of budget making authority seems destined to disappear. Generally speaking, it is not conducive to careful budget planning.

**The Budget Staff Agency.**—Whatever the type of the budget making authority, it must have a competent staff agency. It seems unnecessary to enter into an extended argument to show this need.

Obviously, someone must gather and compile the information for the preparation of the budget. This can best be done by a staff agency. For example, let us observe the executive when serving in the capacity of budget maker. Except in the smaller governments, he is usually burdened with administrative duties to such extent that he can scarcely find time to supervise the details of budget making. Furthermore, he is not always technically equipped to set up the budget document in the most approved manner. For these reasons he ought to have the assistance of one or more persons who have a systematic knowledge of the methods of public budgeting and some experience in fiscal operation. The number of persons required on the budget staff naturally depends upon the size of the government. In the larger units of government a staff of several persons may be required to prepare the budget, as we shall point out later; but one person may be able to do the work in the smaller units, and in some instances part of his time may be available for other fiscal work.

The budget staff agency should be permanent; at least, it should have a nucleus of employees that continues from year to year. Temporary staffs, recruited each budget making period, are generally unsatisfactory. However, it is possible to supplement a small permanent staff with specialists temporarily furnished by other governmental departments and by private agencies. This has been successfully done in practice. Engineering services, for example, are sometimes supplied by the department of public works. Governmental research bureaus and agencies, which are now widely established throughout the country, frequently give assistance to the budget staffs of the various governmental units, particularly those in the larger cities.

At the present time the budget making authorities of about half the state governments and a large majority of the city and other local governments are without permanent staff agencies. In most instances these authorities resort to the use of temporary help for a short period during the actual preparation of the budget. This help may come from administrative departments or from private agencies. At best it is nothing more than a makeshift. It is no wonder that many of the budgets prepared in this way are hardly worthy of the name.

However, the number of permanent staff agencies is rapidly increasing as need for them in budgetary work grows more urgent. Many of these agencies were created when the budget system was inaugurated in the various governmental units, but several of them



have been provided by later legislation. A few have been abolished; although in most instances they have been reconstituted in different forms. The permanent budget staff agencies now established in the national government, about half the state governments, and a number of the leading city governments, may be grouped under three general classes, as follows: (1) departments of general fiscal administration, (2) budget bureaus or offices, and (3) staffs of budget boards or committees. The first two classes are generally found in connection with the executive type of budget making authority, while the third class is associated with the board type or the legislative type of budget making authority. The departments of general fiscal administration are distinguished from the other agencies mainly by the fact that they have wider powers of financial supervision extending to the execution of the budget. Each class of budget staff agency is discussed more at length below.

*Departments of General Fiscal Administration.*—Departments with powers of general fiscal administration are to be found in several state governments which have been recently reorganized and in a number of cities with the manager or the strong mayor forms of government. Each of these departments acts not only as a staff agency to the executive in the preparation of the budget but it also supervises in some degree the carrying out of the budget plan under his direction. Its powers usually cover all the important phases of financial management. Furthermore, it is in a position of authority in the administration since it has the status of a regular department, its head generally being on an equal footing with the other departmental heads. In this respect, it is similar to the English Treasury Department, which serves as the budget staff agency to the British executive.

The first one of these departments to be established in any state government was the Illinois department of finance, created under the administrative reorganization act of 1917. At the time of its creation, it was one of nine administrative departments which took over the powers and duties of more than one hundred statutory agencies. However, in the reorganization no work performed by previously existing agencies was given to the department of finance, except the functions of the governor's auditor and the compilation of the budget estimates by the legislative reference bureau. Strictly speaking, it was not regarded as a spending agency, that is, it was not concerned directly with the spending of state funds in the performance of governmental services. By reason of this position, it was granted broad financial supervision over the other spending



departments.<sup>1</sup> This supervision was extended under the finance code enacted in 1919, so that the powers of the department of finance were made to apply in a large measure to the constitutional, as well as the statutory, departments and agencies of the state government. Hence, it came to be regarded, particularly under Governor Lowden's administration, as the most important department in the reorganized plan of state government.

A brief description of the internal organization and a synopsis of the existing powers of the Illinois department of finance are of interest in this connection. This department is headed by the director of finance, who is appointed by the governor with the senate's approval. The annual salary of the director is \$7,000, and his term is the same as that of the governor, namely, four years. The subordinate officers in the department are the assistant director of finance, the administrative auditor, the superintendent of budget, the superintendent of department reports, and the statistician. While these officers are all appointed by the governor, they are under the supervision of the director of the department. The office force of the department consists of about a dozen employees. All powers and duties are vested by law in the department rather than in the director or any of the subordinate officers. The director has authority to distribute the work of the department to the subordinate officers and employees, except in so far as the titles of the subordinate officers indicate the work which they are to do. The chief functions of the department are briefly as follows: to examine the accuracy and legality of the accounts and expenditures of the other departments, particularly those of the statutory departments; to prescribe and install a uniform system of accounting and reporting; to examine, approve or disapprove all bills, vouchers and claims against the other departments; to consolidate the estimates and frame the budget for submission to the governor; and to formulate plans for better coördination of the work of the departments. While the accounting and auditing work of the department of finance duplicates to some extent that of the elective state auditor, this situation is unavoidable without constitutional changes. In the preparation of the budget, the superintendent of budget compiles and analyzes the estimates and other data for the scrutiny of the director of finance, the latter having authority to alter the estimates of the various departments as he may see fit. This authority, coupled with subsequent budgetary control, makes the director of finance,

<sup>1</sup> For further discussion on this point, see below, p. 446.

next to the governor, the most powerful officer in the state administration.

Since the creation of the Illinois department of finance, several states have established similar departments. The more notable of these departments are the departments of finance of Nebraska, Ohio, South Dakota, and Vermont, the department of finance and taxation of Tennessee, and the department of efficiency of Washington. There is a single director or commissioner at the head of each of these departments who is directly responsible to the governor. In each case the department serves as a budget staff agency to the governor and at the same time performs most of the other duties of the Illinois department. However, these departments, with the possible exception of the Washington department of efficiency, are also spending agencies; that is, they perform certain services, such as purchasing and storing of supplies, general personnel control, and supervision of the state tax system. In so far as these services or functions are strictly fiscal in character, they may be regarded as being part of the work of the department of finance, although the scope is much more extended than that contemplated by the original Illinois department. But when the department of finance undertakes services like the regulation of banking and insurance companies, as in the case of the Vermont department of finance, it has overstepped the bounds of strictly financial functions. Such services undoubtedly belong to other operating departments.

Another kind of department of general fiscal administration is to be found in Massachusetts. It was established in 1922 and is known as the commission on administration and finance. The commission consists of four members appointed by the governor with the consent of the administrative council for overlapping terms of four years, a period equal to two gubernatorial terms. Aside from being headed by a commission, it has a broader scope than the Illinois department of finance. Its organization consists of a comptroller's bureau, a budget bureau, a purchasing bureau, and a division of personnel and standardization. One of the commissioners acts as head of each of the bureaus, and a director appointed by the commission is head of the division. Extensive authority is vested in the commission over the business management of the various state departments and institutions. All general accounts are kept by the comptroller's bureau, the elective auditor keeping no accounts in connection with his auditing work. The budget is prepared for the governor by the budget bureau, using the accounting data collected and compiled by the comptroller's bureau. The work of the commission

heads up in one of its members, who is designated as chairman and who stands somewhat in the position of a state business manager.

In 1925, Minnesota created a department of administration and finance which is fashioned after the Massachusetts department, but its powers are not so extensive as those of the latter. It is headed by a commission of three members appointed by the governor with the consent of the senate for terms of six years. It is organized under the comptroller's division, the budget division, and the purchases division. The comptroller's division keeps a general set of accounts which largely duplicates those kept by the elective auditor. The budget division gathers the information and prepares the state budget for the governor. The commission has power, with some exceptions, to classify and regulate the personnel of the state government.

California recently established a department of finance which is a cross between the Illinois and the Massachusetts departments. This department has as its administrative head a director appointed by the governor and serving at his pleasure; it also has as a kind of rule making body a board of control, consisting of the director, the chief of the division of service and supply within the department, who is appointed by the governor, and the elective state controller. The director has broad authority to supervise the fiscal operations of the state government. He is required to audit the accounts of all state agencies, to prepare the state budget for the governor, to authorize, with the governor's approval, expenditures to meet deficiencies, to stop the treasurer from paying claims authorized by the state controller which he does not approve, to invest certain funds, to buy bonds of local subdivisions, to lease or sell properties belonging to the state, to approve all contracts before they are entered into, and to devise a uniform accounting system for all state agencies.

In three states—Idaho, Utah, and Pennsylvania—single headed departments exercising general budgeting and fiscal supervision have been created and later changed or abolished. In 1919, a department of finance was created under the Idaho reorganization plan, but in 1921 its fiscal functions were taken away and vested in the elective auditor's office and in a budget bureau under the governor's office. Although the department retained the same name, it was given certain regulative functions from another department which were entirely foreign to fiscal control. A department of finance and purchase was created in Utah in 1921, which acted as a budget staff agency to the governor and in addition exercised certain general fiscal supervision. It went by default in 1925 for lack of an appropriation

to meet its operating expenses. Under Governor Pinchot's reorganization of the administration of Pennsylvania there was created in 1923 a department of state and finance by the addition of certain budgetary powers to those already exercised by the secretary of state, an appointee of the governor. In 1927 these powers were transferred to a budget secretary under the governor's office who now prepares the budget for the governor to transmit to the legislature.

Several cities with the strong mayor or the manager forms of government have established departments of finance, each with a single head appointed by the mayor or the manager. Very good examples of such departments are to be found in Denver and Toledo under the strong mayor form of government and in Cleveland and Rochester under the manager form of government. Each of these departments includes the essential financial functions of the city government, such as general accounting control, custody of city funds, purchase of supplies and materials, and assessment and collection of taxes and licenses. The head of the department, or one of his subordinate officers, is responsible for the preparation of the budget under the supervision of the mayor or the manager. The information for budgetary planning is assembled throughout the fiscal year in the process of controlling the execution of the budget. In short, the department of finance is an essential part of the mechanism of successful city administration and management.<sup>1</sup>

*Budget Bureaus or Offices Under the Executive.*—Budget bureaus or offices are more limited in their functions than the departments of finance already described. They deal mainly with the preparation of the budget, although in many cases they exercise some supervision over the execution of the budget. As budget staff agencies, they are quite popular at the present time, having been established in the national government and a number of state and local governments.

The most notable budget bureau in the country is the Bureau of the Budget of the federal government, which was established in 1921 when the national budget system was adopted. While this Bureau is technically under the Treasury Department, it is actually attached directly to the office of the President. The head of the Bureau, called the Director of the Budget, is appointed by and serves at the pleasure of the President. There is also an assistant director, likewise appointed by the President. The appointment of these officers does not require the approval of the Senate, as is the usual

<sup>1</sup> See *Municipal Finance*, by A. E. Buck and others, 1926, pp. 13-27.



method with other presidential appointees. They may therefore be considered the personal representatives of the President, which is regarded as one of the important features of the national budget system.<sup>1</sup> The Director receives an annual salary of \$10,000 and the assistant director gets \$9,000.<sup>2</sup> The Director appoints all the subordinate officers and employees of the Bureau, of which there are about forty at the present time. The annual operating expenses of the Bureau amount to \$183,000, of which approximately \$157,000 is for salaries.

The main function of the Bureau of the Budget is to act as the staff agency to the President in the formulation and submission of the national budget to Congress. Aside from this, it maintains records of the quarterly apportionments or allotments of the appropriations made by the several spending agencies of the government which are followed in the execution of the budget. Perhaps the most important subunit of the Bureau is the division of estimates, which compiles the budget document, supplies supporting data to be transmitted to Congress with the supplementary and deficiency estimates, and keeps the records of quarterly apportionments of appropriations. There is a board of estimates in the Bureau, consisting of the director and nine of his subordinate officers, which holds hearings or conferences with the various spending agencies and revises the estimates for the President's consideration. There are also twelve so-called investigators in the Bureau which are assigned to study the estimates of the various departments and other spending agencies of the government in the light of their operations and needs. Each department has a budget officer, designated as such by the head of the department, who serves as the contact person between the department and the Bureau of the Budget. Coöperation between the Bureau and the spending departments and agencies is brought about through the "federal business associations" and the "Business Organization of the Government," the latter holding semiannual meetings at Washington.<sup>3</sup>

More than a dozen states have established budget bureaus, divisions, or offices under the direction of the governor. Under the recent reorganization of the New York state government, a division of the budget was created in the executive department, headed by a director of the budget appointed by the governor and serving at

<sup>1</sup> See W. F. Willoughby, *The National Budget System*, Chapter V, particularly p. 41.

<sup>2</sup> The national budget for 1930 recommended a salary of \$12,000 for the Director, which was not approved by Congress.

<sup>3</sup> See below, pp. 545-549.



his pleasure. It is fashioned after the national Bureau of the Budget. Five other states—Idaho, Iowa, Kansas, Pennsylvania, and Virginia—have budget bureaus or divisions similar to that of New York, the heads or directors of which are directly responsible to the governor. South Carolina and Wyoming have budget secretaries attached to the governor's office. North Carolina has a budget assistant to the governor. Colorado has a budget and efficiency commissioner appointed by the governor. In Indiana the state examiner of accounts, who is appointed by the governor, serves as the budget officer. New Jersey has two budget officers, one representing each major political party, who assist the governor and the state house commission in the preparation of the budget. The assumption here is that the preparation of the budget is a partisan rather than a technical matter, that even the bare facts and figures which go into the budget must be scrutinized in the process of compilation by party representatives in order to keep one party from putting something over on the other. It is not considered enough, apparently, for the members of the legislature to examine the completed budget and to criticise it from the standpoint of political interests. Maryland, in practice, has a budget officer responsible to the elective comptroller, who assists the governor in preparing the budget.<sup>1</sup> In Rhode Island a state commissioner of finance was recently provided for, who not only prepares the budget for the governor and the legislature but also has certain supervisory powers over the expenditure of public funds similar to those exercised by the state departments of finance. Although appointed by the governor with the senate's approval, he has a fixed term of office which is twice that of the governor.

As a rule, the budget bureaus, divisions, and offices of the foregoing states do not exercise very much authority in the carrying out of the budget plan. They frequently require the spending agencies or the general accounting office to report to them certain expenditure data, but these are used largely for statistical rather than administrative purposes. However, in North Carolina and Virginia the spending agencies are required to allot their appropriations in anticipation of their quarterly needs and these allotments are administered by the budget officers.

In a few of the large cities, notably New York, Detroit, and Boston, the office of budget director or commissioner has been created. This officer has much the same duties as those of the

<sup>1</sup> The governor recently designated the state purchasing agent as his budget assistant.

state budget director; he is concerned mainly with the collection of the estimates and the preparation of the budget. However, in New York City the director of the budget does not compile the estimates; in fact, he has no staff for purposes of budgetary investigation, but relies largely upon the information gathered by the budget staff under the secretary of the board of estimate and apportionment. He plays a minor rôle in the preparation of the budget, merely making certain suggestions with respect to the revision of the estimates. His important functions relate to the handling during the budget year of departmental requests for transfers of appropriations, changes in salaries, and the issuance of tax notes and revenue bonds. He works in conjunction with a subcommittee of the board of estimate and apportionment. His office was created in 1923. He is appointed by and serves at the pleasure of the mayor. His salary is \$12,000 a year. In Detroit a budget bureau has been created and attached to the controller's office, the controller being an appointee of the mayor. The budget director who heads this bureau has a staff of about a half dozen employees. He is concerned mainly with the preparation of the budget and the investigation of the city departments and agencies at other periods of the year. In Boston there is a budget commissioner who is head of the budget department. He is appointed by and responsible to the mayor. His principal duty is the preparation of the city budget. He has a small staff to assist him in this work.

*Staffs of Budget Boards and Committees.*—The Wisconsin state board of public affairs is the most notable example of the board type of budget making authority with a permanent staff. This board has a small staff of accountants, examiners, and clerical employees who work under the direction of a secretary. It exercises certain powers of general fiscal administration in addition to formulating the budget for the legislature. The staff conducts investigations, makes audits, and secures detailed data for the budget.<sup>1</sup>

In Michigan the state administrative board, consisting of the governor, as chairman, and six other elective administrative officers, is the budget making authority. This board has delegated the work of preparing the budget to a budget commissioner. He is responsible for the investigation of the estimates and for the tabulation of the budget data which the board submits to the legislature.

Before the governor became the budget making authority in New York State through the adoption of a constitutional amendment in

<sup>1</sup> Under a law just passed by the 1929 legislature of Wisconsin, a budget bureau is to be established under a director of the budget appointed by the governor.

1927, the chairmen of the finance and of the ways and means committees of the legislature prepared the state budget. In order to do this, they had a special budget staff which worked throughout the year. The members of this staff investigated the requests for appropriations, compiled the budget estimates, and gathered information relative to expenditures and revenues. Although the budget making powers have been transferred to the governor, this staff is retained by the chairmen of the two legislative committees to aid them in reviewing the governor's budget and in collecting supplementary budget data.

We have already referred to the budget staff under the secretary of the board of estimate and apportionment in New York City. This staff has been in existence for several years and consists at the present time of about thirty examiners, engineers, and inspectors. The members of this staff study the departmental requests on assignments and make recommendations for revisions at the time the budget is being compiled. The budget director may add to these recommendations any suggestions that he may have to make as a result of being present at conferences between the examiners and the heads of the various spending agencies.

The finance committee of the Chicago city council has a staff which compiles the budget estimates and other information for the action of this committee. The members of the staff not only scrutinize the estimates but they conduct investigations during the year. The budget report to the council and the appropriation bill are prepared by the finance committee with the assistance of the staff; in fact, the staff does all the detailed work.

**The Larger Sphere of the Budget Making Authority.**—So far we have viewed the budget making authority and its staff agency largely from the standpoint of formulating the budget, since this is the main theme of our discussion in the three subsequent chapters. While the careful preparation of the financial plan is essential, this is but the beginning in the budgetary process. If the budget making authority is of the executive type, its duties in connection with the execution of the budget are just as important as those relating to the formulation of the budget. In Part IV of this book, we shall discuss at length the duties of the executive in connection with the carrying out of the financial plan, more emphasis being placed on the structural side of government in relation to the budget than we have attempted to set forth in this chapter.

With respect to the budget staff agencies, we have already indi-

cated that many of them merely compile the data for the preparation of the budget and have little, or nothing, to do with its execution. As we shall show in Part IV, the compilation of financial data is only part of the work which the budget staff agency should do, assuming that it has been properly organized and developed.

## CHAPTER X

### PREPARATION OF THE BUDGET ESTIMATES

WE NOW take up the first stage in budgetary procedure, which we have already designated as the formulation of the budget. This stage involves a number of successive steps carried out under the direction of the budget making authority. The more important of these steps are as follows: the determination of the general fiscal policy, the preparation of the estimates, the review and revision of the estimates, the consolidation of the estimates in a tentative budget, the holding of public hearings, and the framing of the budget document in final form. In this chapter, we shall discuss the determination of the general policy and the preparation of the estimates. Then comes the review and revision of the estimates by the budget maker with the assistance of his staff agency, the latter producing the necessary collateral information for this purpose either prior to or at the time of the revision. This step is treated in the following chapter. We shall then discuss in Chapter XII the remaining steps, namely, the setting up of the tentative budget, the holding of public hearings, and the framing of the budget document.

The initial step in the formulation of the budget, as we have indicated, should be the enunciation by the budget maker of the fiscal policy which is to be followed. But this step, although quite essential, is frequently omitted, partly because budget makers do not generally appreciate its importance, and partly because trained budget staffs are still lacking in many governments as technical aids in developing the necessary facts. Without these facts the budget maker is greatly handicapped in outlining the fiscal policy. Under these circumstances, the logical second step—the preparation of the estimates—becomes the starting point in the formulation of the budget.

The preparation of the budget estimates involves the bringing together of certain detailed information concerning the expenditures and the income of the government which is to be used as the basis for the formulation of the budget. As we have already pointed out, this information relates chiefly to the period covered by the budget; it sets forth the proposed expenditures and the anticipated income for this period. For comparative purposes, the financial experi-



ence of at least two years preceding the budget period is also shown on the estimates. This experience may be complete for the two years or it may be estimated for the latter part of the year nearest the budget period, depending upon when the estimates are prepared.

**General Fiscal Policy Outlined by the Executive.**—The estimates may be prepared by the spending agencies of the government either with or without the enunciation by the executive of a general fiscal policy for the budget period.<sup>1</sup> The usual practice in state and local budgeting is not to outline such policy prior to the preparation of the estimates by the various spending agencies. These agencies set forth the details of their expenditure requirements for the budget period without any limiting suggestions or orders on the part of the executive. The matter of general fiscal policy is not brought out until the estimates are in the process of review, or perhaps even later when the budget document is actually being framed.

In the national government, however, it has been found desirable for the President to outline the general features of his fiscal policy before the spending agencies start preparing the estimates. This is done at the June meeting of "The Business Organization of the Government," which is usually held in the Memorial Continental Hall at Washington. All heads of departments, bureaus, and other spending agencies of the government, particularly those situated in the District of Columbia, attend these meetings which are held in January and June.<sup>2</sup> Prior to the June meeting the Director of the Budget prepares certain preliminary estimates of both expenditures and revenues for the budget period, the beginning of which is then more than a year away. On the basis of these estimates the President formulates his fiscal policy and states it briefly at this meeting.<sup>3</sup>

At the meeting which was held on June 21, 1926, President Coolidge outlined his "policy" with reference to the budget for the fiscal year beginning July 1, 1927 (which is called the budget for 1928), in these words:

We are approaching the time for consideration of the estimates of appropriations for the fiscal year 1928. I have expressed to the Director of the Bureau of the Budget the hope that these estimates can be kept within a

<sup>1</sup>In practice, such policy has been outlined only where the executive is the budget making authority. Budget making authorities of the board and legislative types have not interested themselves in the determination of fiscal policy until after the estimates have been reviewed.

<sup>2</sup>For further discussion of these meetings, see below, pp. 548-549.

<sup>3</sup>This was the practice during the Coolidge administration. President Hoover, however, did not hold a meeting of "The Business Organization of the Government" in June, 1929, but enunciated his general fiscal policy through a statement issued by the Bureau of the Budget.

limit of \$3,200,000,000 exclusive of the postal service and tax refunds. It may become imperative before the budget is finally completed substantially to reduce that figure. This will depend entirely upon our revenue outlook for 1928, concerning which we will have better information a few months hence. I say to you frankly that the outlook today is not encouraging.

With reference to the budget for 1929, President Coolidge spoke at the meeting held on June 10, 1927, as follows:

Another task now facing you is the preparation of your estimates for the fiscal year 1929. We are striving, as always, to pave the way for further reduction of debt and of taxes. This in itself necessitates unremitting effort to hold the level of our expenditure program. After a careful study of our probable financial condition in 1929, it is my desire that the estimates of appropriations for that year be held within a total of \$3,300,000,000. This is exclusive of reduction of the debt, the postal service, and tax refunds. This maximum has not been fixed arbitrarily. It is the result of careful study of probable financial conditions in 1929. Fixed charges have been balanced against the best possible estimate of receipts. In establishing this maximum for estimates for 1929 I expect the Budget Director to limit the calls of the various departments within this amount.

President Coolidge again set forth his "policy" respecting the budget for 1930, at the meeting held on June 11, 1928, in the following language:

In less than six months the budget for 1930 must be laid before the Congress. I intend that the estimate of appropriations contained therein shall reflect expenditures well within our estimated receipts. With this in view I have tentatively fixed upon \$3,700,000,000 as the amount available for estimates for 1930. This figure covers tax refunds, permanent and indefinite appropriations, the postal deficit, and funds for extraordinary new projects, amounting in all to \$460,000,000, which were not included in the maximum for 1929. The amount contemplated in the 1930 restrictive figure for the ordinary routine operations of government is really less by \$60,000,000 than the availability for these purposes in 1929. The necessity of keeping expenditures within receipts, the importance of continuing our pay-as-we-go policy, cannot be over-emphasized. This primary limitation on estimates is the first step toward the continuation of that policy in 1930. It means that there will be no latitude for expansion where expansion is not made compulsory by new law or by conditions that leave no choice. In preparing your preliminary estimates for 1930, which you will submit to the Budget Bureau by July 15 next, you must keep this in mind.

The foregoing statements with reference to the budgets for 1928, 1929, and 1930 show the extent to which the general fiscal policy of the executive was set forth by President Coolidge prior to the preparation of the estimates. The spending departments and agencies were forewarned to keep their estimates down and the Budget Director was instructed to see that they did. It will be noted that

President Coolidge emphasized mainly the expenditure side of the budget. He had little, if anything, to say about the income side of the budget and the possible adjustments that might be made in it. His budgetary policy, therefore, related mainly to keeping down the expenditure estimates. In this respect, it lacked the breadth and significance which ordinarily attaches to the fiscal policy of European budgeteers, particularly that of the English Chancellor of the Exchequer.

In those states where the governor is the budget making authority, a general fiscal policy for the budgetary period ought to be outlined by the executive as a preliminary step in the preparation of the estimates. The larger city governments, particularly those with the strong mayor and the manager forms, would also find it helpful in budget making to follow a similar procedure. In fact, as we shall note later in this chapter, certain city managers do attempt to develop a fiscal policy as one of the first steps in preparing the budget.

**Methods of Gathering Budgetary Information.**—It is not an easy matter to collect and assemble the budgetary information, the general nature and sources of which we have discussed above in Chapter VI. Two methods are generally employed: one is through the use of written estimates and the other is by direct investigation and study.

The written estimates set forth the financial requirements for the budget period of the various units of the government, supported by accounting and statistical data covering the fiscal experience of two or more years preceding the budget period. These estimates are usually provided for by law, and the general nature of the information which they must set forth is often prescribed, as we have indicated above in Chapter VIII. In every governmental unit, national, state and local, the written estimates contain the primary types of budgetary information. These estimates are necessary, in fact, indispensable in the preparation of the budget. But they cannot present all the budgetary information that it is desirable to have; they should be supplemented by direct investigation and study carried on by the budget staff agency or private individuals or agencies.

We have discussed in the preceding chapter the different types of staff agencies which are established to assist the budget maker in the formulation of the budget. Many of these agencies are permanently occupied with the collection, classification, and tabulation of accounting and statistical data relative to governmental finances—

such data as will meet the requirements of public budgeting. They study the estimates, both of income and outgo; they investigate the expenditure needs of the various agencies; they gather supplementary data on operation and maintenance costs; they make economic, industrial, and business surveys. In this way valuable information is produced which the written estimates cannot be expected to supply. Furthermore, independent study and investigation by a staff agency insures that greater care will be used by the governmental agencies in preparing the written estimates.

The general attitude that spending officers take toward the preparation of the estimates is worthy of mention in this connection. Are the estimates honestly and accurately made? Do they represent the best effort of these officers? Americans are likely to overlook such questions. To them one estimate is like another; they fail to see that the personal element looms large in financial estimating as it does in many other things. This fact, however, has not escaped the noted French writers on the budget, Gaston Jèze and René Stourm. M. Jèze says that nothing can take the place of the personal qualities of those who prepare the estimates and he mentions sincerity and perspicacity as the most important of these qualities.<sup>1</sup> M. Stourm is even more insistent on this point. He says:

Correct estimates demand two primary qualities: wisdom and sincerity. Wisdom enables those engaged in preparing the budget to see the future clearly—as clearly as possible; sincerity compels them to state the truth when they have ascertained it. These two qualities go hand in hand. What is the use of being sincere if one is not sagacious; and of what value is wisdom if, through lack of sincerity, the light be hid under a bushel? Which is better, not to see the truth or not to tell the truth—to deceive or to be deceived? Let us repeat, that the combination of these two qualities alone leads to correct estimates.<sup>2</sup>

These personal qualities are desirable not only in the officers who prepare the detailed expenditure and revenue estimates, but also in the executive or other budget making authority. The balancing of the budget is an important fiscal problem which may be solved either in an honest and perspicacious manner, or through the juggling of figures according to the personal and political ends of the budget maker. It is often an easy matter to increase the estimates of anticipated revenues or to decrease those of the proposed expenditures and thus bring the two into equilibrium without the citizens or taxpayers being aware of the real situation.

<sup>1</sup> Gaston Jèze, *Théorie Générale du Budget*, 6th edition, 1922, p. 210.

<sup>2</sup> René Stourm, *The Budget*, translation from 7th edition, 1913, p. 170.



**Preparation of Expenditure Estimates.**—The preparation of the expenditure estimates is largely a departmental matter. Each department, bureau, division, or other spending agency is responsible through its administrative head or other designated officer for filing its requests on the forms and according to the instructions furnished by the budget making authority. In most governmental units, estimate forms, such as we have described in Chapter VIII, are supplied to the various spending agencies by the budget maker or his staff agency. These forms or blanks are usually accompanied by instructions on how they are to be filled out. In a few instances, the date for sending out estimate blanks to the spending agencies is fixed in the budget law. As a general rule, however, only the final date for the return of the completed estimates to the budget maker or his staff agency is so fixed. It is therefore left to the judgment of the budget maker as to when the estimate blanks should be sent out. Usually these blanks are supplied to spending agencies from one to two months before they are to be returned and filed.

It is the general practice among the various governmental units to require only one filing of estimates by the spending agencies. The national government, however, requires the spending agencies to file estimates twice for the same budget period, the first being called "preliminary estimates" and the second "revised estimates." The preliminary estimates are submitted to the Bureau of the Budget about July 15 of each year. These estimates are entered on the sheets of the preceding budget and show the tentative requests in lump sum amounts without details. The aggregate of these requests is usually much larger than the total amount of expenditures already fixed by the President, which, according to his fiscal policy, may not be exceeded in the budget. The Bureau of the Budget therefore uses the preliminary estimates to determine to what extent the requests of each spending agency must be curtailed in order to bring them within the limit set by the President. The board of estimates within the Bureau arrives at the maximum amount which may be allowed each agency by a study of the preliminary estimates with the aid of supplementary data collected by the investigating staff. Each agency is then advised as to this amount and requested to make up its revised or regular estimates so as to keep within it. If the agency feels that it must ask for more than the maximum amount, then the additional amount is stated in the form of a supplemental request and clearly marked as such. It is maintained that this method places the burden of proof on the spending agencies where



it should belong; furthermore, that it requires the administrative officers to provide for the essential work and to make the reductions where they will do the least damage. The revised or regular estimates are prepared in detail upon standard blanks furnished by the Bureau of the Budget; they are required by the budget law to be filed by September 15, which is approximately two months after the preliminary estimates are filed. The regular estimates of Congress and the Supreme Court are not required under the law to be filed until October 15, since the President has no authority to revise them. These agencies, however, present preliminary estimates at the usual time in order to enable the Bureau of the Budget to get a complete picture of the expenditure requirements for the budget year.

Another method of keeping the spending agencies from requesting more than can possibly be financed has been devised by John N. Edy, city manager of Berkeley, California. It does not make use of preliminary estimates as in the case of the national budget, but it arrives at practically the same result in the end. The manager, with the assistance of his budget officer, J. H. Jamison, makes a careful analysis of the current year's budget in the light of the work program and in this way decides upon the total budget for the forthcoming year, definitely allocating to each spending agency the maximum amount which it may spend during the budget year. Each spending agency is then notified of the maximum amount which it may spend and asked to frame its estimates so as not to exceed this amount. In the event the spending agency desires to submit requests in excess of the amount allowed by the manager, it must do so on supplementary estimate sheets and arrange the requests in the order of their importance. These additional requests are allowed only in the event and to the extent that revenue is found to be available to meet them at the subsequent date when the budget is formulated. Mr. Edy claims that this method has greatly reduced the work of preparing the city budget, since the estimates require very little revision and practically no redrafting.

*Supplying Comparative Expenditure Data on the Estimates.*—In the preparation of the estimates by the spending agencies of the government, the question arises as to the extent to which these agencies should be required to furnish the information asked for on the estimate blanks. Should they write in the data with reference to the preceding and current years' expenditures as well as their requests for the forthcoming budget period? Or should they supply only the requests? This depends upon the nature of the general

accounting system of the government. If this system is decentralized, as it is in a great many state and local governments and even in the national government, that is, if each spending department or agency is keeping its own accounts and preauditing its own bills, then the budgetary information with reference to past and current expenditures can best be furnished by the spending agency. But if the government has a centralized system of general accounting which furnishes detailed information covering the expenditures of all departments and agencies, it is then desirable to have the estimate blanks filled out as to past and current expenditures by the central accounting office before they are sent to the spending agencies. This is the method followed by the British Treasury Department in submitting the estimate forms to the spending departments.<sup>1</sup>

The general accounting system in several of our state and city governments is so organized as to permit this to be done at the present time. In fact, for several years the budget staff agency under the Wisconsin state board of public affairs has inserted on the estimate forms, before sending them out to each spending agency, the itemized expenditures actually made by the agency for each of the three years preceding the year then current, as shown by the controlling accounts kept in the office of the board. In this way, the arrangement of the information and the degree of itemization are determined by the budget staff before the estimates leave the board's office, a certain amount of space being left for the insertion of new items by the spending agency. Upon receipt of the estimate forms, each spending agency is required to insert the estimated expenditures for the current year and the requests for each year of the succeeding biennium.

In several state and city governments, it is possible to follow the Wisconsin procedure by filling out the estimate sheets with the expenditure items for the past year and the current year before these sheets are sent to the spending agencies for their estimates. The expenditures for the current year, in most instances, have not all been made at the time the sheets are sent out, but an estimate for that year can be arrived at on the basis of the actual expenditures for the months already past, supplemented by figures from the work program for the subsequent months of the year.

Where the fiscal system of the government is centralized under a department of finance or other similar agency, it is easier to supply the expenditure figures on the estimate sheets before they are sent

<sup>1</sup> See E. Hilton Young, *The System of National Finance*, 2nd edition, 1924, pp. 24-25.

to the spending departments or agencies. This method has two other advantages: it insures uniformity in the budgetary information returned on the estimate sheets, and it facilitates the preparation of the estimates. A centralized system of cost accounts, as well as general accounts, is not only feasible but desirable in many governmental units at the present time. Eventually we shall expect such a system to be developed.<sup>1</sup> When this happens, it will be possible to supply centrally such cost data as may be required in budget making. At the present time, however, cost data must be furnished, if at all, by the operating unit or agency of the government.

*Methods of Estimating Expenditures.*—No exact rules have been formulated for estimating expenditure needs. Budgetary laws contain no provisions on this point, although many of them indicate that comparison with past costs is an important factor in preparing the estimates. It is for these reasons that expenditure estimating must be left largely in the hands of the administrative or other officer whose duty it is to frame the requests for each department, institution, or agency. His estimates will be good or bad, in direct proportion to his experience in the work and to the tact and foresight which he uses in divining future needs, prices, and conditions. Here again, as we have noted above, much depends upon the sagacity and integrity of the estimator.

Certain things, however, may be pointed out, which are an aid not only to the novice but to the more experienced administrator in estimating expenditure requirements. In the first place, accurate estimating cannot be done in lump sum amounts. It is necessary to resolve all such amounts by analyses into their constituent details. These analyses should follow organization unit, character and object, as we have explained in the preceding chapter on classification. In estimating for a department, the administrator should set out the suborganization units within the department, that is, the bureaus or divisions. Then he should resolve the needs of each bureau or division into character groupings and object classes. He may do this by projecting his current work program over the budget period, transposing the estimated costs from an activity basis to an object basis. By a further breaking up or subdividing of the object classes, the objects themselves are reached. It is then only a matter of multiplying the estimated number of objects by the anticipated unit price to arrive at the total for each subclass. The number of such objects required for the last completed year's work and the current unit price may be taken as a measure of future requirements or an

<sup>1</sup> See above, pp. 170-171; also below, pp. 527-529.

indication of future prices. This is the reason for having comparative figures in the estimates on the previous year and the year in progress; otherwise, these figures would be meaningless. The appropriations for the year in progress are sometimes given instead of estimated figures, based on, say, six or nine months' actual expenditures and the remaining months estimated. For comparative purposes, the appropriations are as much guesses as the estimates were which preceded them. Besides, if the appropriations are properly made, they will not be in sufficient detail for comparative purposes. The actual expenditures for the previous year or the estimated expenditures for the current year form the only real basis for comparison. Furthermore, it should be borne in mind that this applies only to current or operating expenses and not to expenditures for properties and debt service. As a rule, comparisons with past costs mean little or nothing in the case of the latter expenditures, particularly those for properties.

In the second place, certain expenditures must be estimated on the basis of future requirements and costs, while others can be calculated almost to the cent. Current expenses, involving personal services, contractual services, commodities, and current charges, must be estimated, taking into consideration future requirements, quantities, prices, and conditions. These expenses contain a few constant factors, such as fixed salaries, but on the whole they are susceptible of considerable variation. Current obligations or fixed charges may, in most instances, be calculated rather exactly; this is generally true of interest, pensions, grants, and taxes. The acquisition of properties, especially equipment and buildings, involves much the same elements in estimating as current expenses; the cost of such properties cannot be accurately fixed unless already determined by option or contract at the time the estimates are made. In the matter of debt redemption, it is possible to calculate exactly the serial requirements or sinking fund installments. Generally speaking, however, more than 50 per cent of governmental expenditures must be estimated or arrived at by indirect processes, there being no direct methods of calculation applicable to them.

In the third place, per capita costs are sometimes helpful in arriving at or in checking over expenditure estimates, particularly those relating to institutional operation. Of course, for such costs to be of the greatest value, they must be produced by an accurate and comprehensive system of cost records. They cannot be largely guesses, that is, compiled on insufficient data, and still be useful. A reasonably accurate budget figure for the operating expenditures of



an institution may be arrived at by the use of a projected population total multiplied by the per capita cost of the last completed year and adjusted to take care of any change in price level which has been anticipated for the budget period. Per capita costs are frequently significant as between institutions performing like services. These costs may also be used, as in the case of the standing army of the United States, in computing the total estimated expenditures for rations, clothing, and so forth.<sup>1</sup>

Finally, the estimator may secure valuable aid from the general staff services of the government, such as the centralized purchasing agency. The purchasing agent, for example, can supply estimated unit prices for commodities to be purchased during the budget period. He is in a better position to do this than any other official, since it is his business to anticipate price and trade conditions in buying for the government.

*The Procedure of Expenditure Estimating.*—Many state and city governments require the expenditure estimates to be certified by the heads of the departments or other spending agencies. Even the estimates of the legislature and of the judiciary must be approved before submission to the budget making authority. For example, the state budget amendments of Maryland, New York, and West Virginia require the estimates of the legislature to be certified by the presiding officer of each house and those of the judiciary by the comptroller or the auditor. Apparently the judges of the state courts are not relied upon in these instances to certify their own estimates.<sup>2</sup> That they have less ability than administrative officers to do financial planning would not seem to be the case.

Some states and cities, notably Kentucky, New Jersey, and Baltimore, as we have seen, go so far as to require all estimates to be sworn to by a responsible officer of the spending agency before they are submitted to the budget making authority. This seems quite unnecessary. To swear to one's estimates or guesses does not make them any more accurate. It is sufficient for all practical purposes to have the head of the spending agency sign the recapitulation sheet of the estimates to indicate his approval.

The purpose of certification or approval, whatever the form, is to fix responsibility for the estimates on some officer who is either directly in charge of the administration of the spending agency or in control of its expenditures. The officer who should assume this

<sup>1</sup> See below, pp. 527-529.

<sup>2</sup> In Colorado and New Mexico the clerk of the state supreme court is required to approve the estimates of the judiciary.



responsibility in any governmental department or institution is undoubtedly the administrative head. He alone is in a position to view the financial needs of the organization as a whole and it is his business to decide, within certain limits, all questions of departmental policy. This does not mean, however, that he may not have the assistance of subordinate officers in preparing the estimates and in supervising the detailed work of assembling the budgetary data. As a matter of fact, he must enlist the aid of his bureau or division chiefs in this work. Where the department is very large, he may find it to his advantage to designate a special budget officer for the entire department. This is the practice in the national government where a budget officer has been appointed in each department to prepare the estimates under the direction of the administrative head. This officer not only has charge of the routine work of assembling the estimates, but he acts as the contact man between the department and the Bureau of the Budget. It is through him that the general policies with respect to the preparation and execution of the budget are transmitted to the superior officers of the department.

For the administrative departments of government the procedure of estimating may be outlined in the following manner. The head of each bureau, division, institution, or other agency under the department should prepare or have prepared the estimates for his unit. He should go over the estimates carefully, if they are not prepared directly by him, before he turns them over to the departmental head. The estimates should be properly summarized and accompanied by the necessary supporting data. In the event the department has a special budget officer, he should see that the estimates of each subordinate unit are properly prepared; but the administrative head of each unit should not be relieved of the duty of examining the estimates carefully before they go to the departmental head. When the estimates for all the units within the department have been brought together, the departmental head should review them to determine if the amounts requested are in keeping with the budget of the department as he conceives it, that the requests of the various units are properly balanced with each other, and that the needs of some units are not being emphasized out of proportion to their importance while those of other units are being more or less neglected. Not only should the departmental head assume responsibility for the estimates of his department, but it is very important that he should revise the requests of the subordinate units so as to fit them into his budget plan for the department as a whole. In the course of such revision, he should consult with the head of each subordinate unit and with

the budget officer, if any, of the department. In fact, the budget officer can be of special assistance at this point, since he stands in somewhat the same position with reference to the departmental head that the budget director, or the commissioner of finance, does to the chief executive or administrative officer of the government. When the departmental head has brought the estimates of all subordinate units into harmony with his view of the budget plan for the department, he should prepare a general summary of all the bureau or division estimates, using a recapitulation blank and indicating thereon his approval of the requests. He should then submit all the departmental estimates and supporting data to the central staff agency in charge of the preparation of the budget.

The estimates for the legislative and the judicial branches of government should be prepared under the direction of the chief clerks or other officers in charge of the routine business of those branches. Where the legislative branch consists of two houses, as it does in the national and state governments, and in a few city governments, there should be some correlation between the requests of these houses, especially in the matter of joint committees. The presiding officer of the legislative body, or of each of the two houses under the bicameral system, should review and approve the estimates before they are submitted to the budget making authority. In several states the legislature is without a permanent clerical organization. A clerical force is appointed at each session, which continues during the session and for sixty or ninety days thereafter. The regular legislative committees also go out of existence, so that in the interim between the sessions there is no one to prepare the expenditure estimates. In such cases an officer should be designated to carry over between the sessions and to be charged with the responsibility of compiling the legislative requests. Otherwise, it will be impossible to include the estimates for legislative purposes in the budget, assuming that the budget is submitted to the legislature at the beginning of the session. This hiatus in organization between sessions, however, does not apply to the courts; their organization is continuous. Estimates for them can usually be prepared at any time the budget making authority may determine upon. The preparation of such estimates is not difficult, since they consist very largely of statutory salaries for the judges and court officers. The estimates of the judiciary, as we have indicated above, frequently require the approval of some fiscal officer before they are submitted to the budget maker.

Aside from the administrative departments and the legislative and

judicial branches of the government, the requirements for debt service are important enough to call for some comment in this connection. These requirements constitute a large item in the budgets of many governments. It is necessary that they should be accurately computed, whether for serial retirements or for sinking fund installments. This is particularly important in the case of sinking fund installments where earnings on the investment of the sinking funds must be taken into consideration. It is not difficult, however, since formulæ and tables for the computation of sinking funds are readily available. The governmental agency having charge of the debt administration should make this computation for the budget making authority. This agency may be a special board or commission, or it may be one of the fiscal officers of the government, depending upon the type of organization which has been created for this purpose.

Mention should be made under this heading of the practice followed in some states and cities of subsidizing privately owned and operated institutions and agencies. These institutions and agencies are supposed to render certain services, usually of a charitable or educational nature, in return for the moneys which they receive from the public treasury. Considerable amounts are appropriated to them, notably in the states of Maryland and Pennsylvania and the cities of Baltimore and New Orleans. Many states, however, have forbidden the appropriation of moneys for such purposes. It is maintained in these cases that if the services are worth doing at all, the government should arrange to perform them through its own agencies. In no instance, it seems, should government aid be given except where much needed and satisfactory services are rendered in return for the moneys appropriated to private agencies. Where government aid is granted, each private institution or agency should be required to furnish detailed estimates of what it intends to do with the public money and to supply in connection therewith a full report on the sources and total amount of its income and the character and distribution of its expenditures. This information is necessary in order that the budget maker may form an opinion as to the desirability of the grant from the standpoint of the government.

**Preparation of Revenue Estimates.**—The preparation of revenue estimates is largely a problem for the general fiscal department or office of the government. In the national government, the estimates of revenue come from the Treasury Department. But these are reviewed by the Director of the Budget, and sometimes modified by him in conference with the Secretary of the Treasury. So the

Director of the Budget may be said in practice to assume full responsibility for the revenue estimates. The budgetary laws of some of the states require the revenue estimates to be prepared by one of the fiscal officers, namely, the controller, the auditor, or the treasurer. But this provision is by no means uniform. In New Jersey the governor, the comptroller, and the treasurer are required jointly to prepare the revenue estimates. In Illinois these estimates are prepared by the department of finance with the assistance of the auditor's office. In several states the responsibility for preparing the revenue estimates falls upon the governor, or other budget making authority, in the absence of legal provisions. The actual work of estimating, in these cases, is usually performed by the budget staff agency or the chief fiscal officer. The responsibility for preparing the revenue estimates in local governments is generally placed on the same types of agencies as it is in the state governments. The mayor, the manager, or other budget making authority, usually calls upon his department of finance or his chief financial officer for the revenue estimates and other information with reference to the income side of the budget.

Where departmental revenues are not turned into the treasury, the budget maker must look to the department retaining them for the estimates. We have pointed out the conditions under which this arises in an earlier chapter and have suggested a special estimate form for this purpose.<sup>1</sup> Quite naturally the budget staff agency of the government is not in a position to do this estimating. However, it should review the estimates prepared by the departments in order to determine if the figures are liberal. The tendency among departments is to underestimate the revenues which they collect and retain for purposes of financing their expenditures. In this way they get larger appropriations from the general treasury, thereby increasing their total income and giving them more to spend during the budget period.

The problem of revenue estimating is not solved merely by fixing responsibility on some governmental agency for the preparation of the estimates. The estimates must oftentimes be made in the face of unusual economic conditions. Rapid changes in business or industry may increase or decrease very materially the amount of certain revenues which have been anticipated for the budget period. An example of this is the stock transfer tax of New York State which yielded several million dollars above the budget estimate for the fiscal year beginning July 1, 1927. This increase was due to

<sup>1</sup> See above, pp. 261, 264 and 271.



a most extraordinary activity on the New York stock market during that year, particularly during the early part of 1928. Such a wind-fall from this source of state revenue could not have been foreseen early in 1927 when the estimates were prepared. In fact, at that time trade indications pointed to a reduction rather than to an increase in the proceeds of this tax. But this is a very unusual case. As a general rule, it is possible to predict with a fair degree of accuracy the inflow from all sources of governmental revenue under normal conditions. The greater the diversity in sources of revenue the more likely it is that the estimates in the aggregate will be realized, since underestimates in some tend to balance overestimates in others.

In this connection it is interesting to note the results of revenue estimating under the national budget system since the first budget was prepared. For the 1923 budget, the receipts were underestimated by more than \$503,000,000; for the 1924 budget by \$650,000,000; for the 1925 budget by \$86,000,000; for the 1926 budget by \$321,000,000; for the 1927 budget by \$304,000,000; and for the 1928 budget by \$269,000,000. Not only have the receipts been consistently underestimated but the excess of receipts over estimates varies widely as between the different years. The nearest to the actual figure was in the 1925 budget when the receipts exceeded the estimate by a little over 2 per cent, while the farthest from it was in the 1924 budget when the receipts exceeded the estimate by over 16 per cent. In the 1926 and 1927 budgets, the receipts in each instance were in the neighborhood of 8 per cent above the estimates; in the 1928 budget they were about 7 per cent above the estimates. This excess, year after year, of actual receipts over estimates has led to some criticism not only of the method of estimating but also of the skill and motives of those making the estimates. It has been intimated that the revenues have been intentionally underestimated so as to aid the President in carrying out his policy of keeping down appropriations and preventing too great tax reduction. But as Mr. Willoughby points out, most of the period covered has been abnormal with respect both to expenditures and to income; the liquidation of war obligations, the payment of indebtedness by foreign governments, the frequent changes in revenue law, and the general economic conditions of the country have been difficult factors to reckon with in estimating revenues.<sup>1</sup> Nevertheless, it appears that the Treasury Department and the Director of the Budget have been ultraconservative in estimating the prospec-

<sup>1</sup> See W. F. Willoughby, *The National Budget System*, 1927, p. 93.



tive income of the national government. While there is no doubt that it is better policy to underestimate than to overestimate revenues, it seems both possible and desirable to make estimates which will be at least within 5 per cent of the actual receipts. In only one of the six national budgets prepared up to 1928 have the estimates been within this limit.<sup>1</sup>

Political considerations often influence the making of revenue estimates. This occurs most frequently in local governments. High estimates of miscellaneous revenues are intentionally made in order to keep the general tax rate down. This usually happens in the election years when an artificially lowered tax rate becomes a political asset for those in office and seeking reelection. Estimates of this character often bring about a deficit in the local treasury. On the other hand, low estimates of miscellaneous revenues are deliberately made where the tax rate is not really pressing in order to provide more money for expenditure. A surplus created in this way can be more easily appropriated for purposes which serve to aid political ends.

*Methods of Estimating Revenues.*—From the standpoint of budgetary estimating, governmental revenues may be placed in two groups: (1) those that are fairly constant or increase at some definite ratio from year to year, and (2) those that fluctuate or swing irregularly up and down from year to year, depending upon economic or other conditions. The revenues in the first group can be accurately forecast on the basis of the receipts for past years, while those in the second group cannot be properly estimated on the basis of such figures but require the use of more extensive data. This, at once, suggests the use of two systems—one simple; the other more complex—of estimating revenues. The simpler system of estimating involves the use of either of two methods, one of which is automatic and the other based on averages. The more complex system employs the method of direct valuation, and relies on other than purely mathematical factors. These three methods may be used singly or in combination. In fact, American practice often applies them in combination. A discussion of each of the three methods follows.

The automatic method is inflexible and leaves nothing to the discretion or the sagacity of the estimator. It is what the French budgeteers call "the rule of the penultimate year."<sup>2</sup> It consists

<sup>1</sup> According to the figures given out by the Treasury Department on June 30, 1929, the ordinary receipts for the 1929 budget were underestimated by \$223,000,000. The estimate was \$3,809,497,314 and the actual collections \$4,033,000,000.

<sup>2</sup> See Gaston Jèze, *Théorie Générale du Budget*, 6th edition, 1922, pp. 217 ff.

merely of entering as the estimates of the forthcoming budget year the actual receipts of the most recent completed fiscal year. In this case the completed fiscal year is the last but one preceding the budget year, that is, it is the penultimate year. This rule of the penultimate year was established in France as early as 1823; it has been consistently followed in that country most of the time since. In fact, the French Minister of Finance and the budget commissions have often proclaimed this rule "in order to shield their sincerity from any possible suspicion." "Could we," they have said, "in order to insure the equilibrium of the budget, suggest to you to give up the rule of the penultimate year, the rigorous application of which has given such fortunate results during the last few years?"<sup>1</sup> Outside of France, however, there is very little application of the rule of the penultimate year. Other methods of estimating revenues are employed in England. In the United States the automatic method is seldom used, and then only in the case of revenues which are unchanging from year to year. This method, when used to the exclusion of other methods, has two disadvantages: it allows one year to intervene between the year taken as a basis of the estimate and the budget year; it attributes to the budget year a total figure which is below the actual collections. These are serious disadvantages, particularly in this country, where the revenue system is not only rapidly changing but where the sources of revenue are such that the amounts collected often fluctuate widely from year to year.

The second method of estimating revenues, namely, the method of averages, is a rule for arriving at a more accurate figure in the case of changing revenues than is possible under the automatic method. It consists in taking an average of the increases in actual collections over three or five years and adding this to the last year in order to arrive at the estimate for the budget year. Since the last completed year is always the penultimate year when the budget is prepared during the year preceding the one to which it applies, the average increase should be adjusted in order to arrive at the estimated figure for the budget year.<sup>2</sup> This adjustment should be equivalent to projecting the average upward trend so as to extend it over the budget year. In the case of a declining source of revenue, the estimate is arrived at by determining the average decrease and subtracting this from the last completed year. This method has greater

<sup>1</sup> See René Stourm, *The Budget*, translation from 7th edition, 1913, p. 173.

<sup>2</sup> In some instances the average is merely added to the total receipts of the penultimate year, thus producing a smaller estimate on account of the intervening year.

flexibility than the automatic method, but even at that it is largely mechanical and does not permit the use of discretion on the part of the estimator. However, for those revenues which change from year to year at some given ratio, a fairly accurate estimate can be obtained by the use of the method of averages. In the early eighties of the past century this method was substituted in France for the automatic method, owing to the fact that large surpluses were coming into the treasury under the application of the rule of the penultimate year. By applying the method of averages it was possible to anticipate to a large extent these surpluses and to make certain tax reductions. The estimates were at first based on an average of three years, but later on an average of five years. Although the longer period was a more conservative basis, it did not prevent what some critics prophesied would be the inevitable outcome of the application of this method, namely, excessive estimates. Very soon deficits began to appear year after year in the national treasury. This condition led to the abandonment of the method and the return to the old automatic method. In the United States, the method of averages has recently been applied in some of the states, notably Pennsylvania, and in several of the local governments. It has seemed to work very well in practice, especially when combined to some extent with the method of direct valuation. The basis of the averages is either three or five years, perhaps more frequently three years.

The third method of estimating revenues, the method of direct valuation, is of English origin. It grew out of the practice of submitting the budget to the House of Commons a few days after the beginning of the budget year. The financial year, just ended at that time, has yielded certain receipts from the various sources of revenue; on the basis of these receipts and in the light of current conditions the revenues for the budget year are calculated. "The probabilities," says M. Stourm, "are so real or so close that they are equivalent almost to accomplished facts. The Chancellor of the Exchequer sees rather than anticipates, and no one would think, therefore, about tying down his estimates by mechanical rules based on antiquated statistics."<sup>1</sup> The accuracy of the estimates produced under this method depends to a very large degree upon personal judgment. But this does not mean that the method lacks real merit. On the contrary, it provides a broader basis for estimating than either of the other methods, since it takes into account all the essential facts—economic, industrial, and otherwise—touching upon the

<sup>1</sup> René Stourm, *The Budget*, translation from 7th edition, 1913, pp. 183-4.

inflow of governmental revenues. While the method of direct valuation undoubtedly operates best when the revenue estimates are prepared very near the beginning of the budget period, it nevertheless has advantages over the other methods even when these estimates are made up several months in advance of this period.

*The Practice of Revenue Estimating.*—The practice of estimating revenues in the United States during the last decade has brought out some rather interesting things. No one of the methods which we have just discussed is actually followed to the exclusion of the others. These methods are generally used, if at all, in combination. Frequently it is impossible by a careful examination of the revenue estimates of some governmental units to discover that any mathematical or logical process has been used in arriving at them. But this is getting to be less and less the case; more attention is being given to revenue estimating according to some systematic method.

In estimating the revenues of the national budget, the basic figures are supplied by the Treasury Department and may be revised, as we have already indicated, by the Director of the Budget. The Treasury Department is attempting to develop an orderly procedure for arriving at the revenue estimates, one which will insure a reasonable degree of accuracy. The customs receipts are estimated by three officials, the Director of the Customs (or his representative), the government actuary, and the head of the Statistical Division. The first is a practical man and the other two are technical men. The income and miscellaneous taxes are estimated by the same officials, except that the Director of Customs is displaced by the Deputy Collector of Internal Revenue (or his representative). Each official estimates the revenues in his own way. The head of the Statistical Division takes into account past and existing business conditions and industrial cycles.<sup>1</sup> The government actuary follows a method of his own. When the estimates are brought together, they may be said to represent a practical and two theoretical points of view. A conference is held at which the variations are threshed out between the three different estimates and the most likely figures are selected. These figures are then submitted to the Director of the Budget. The method followed in arriving at the revenue estimates is really a combination of averages and direct valuation, with the emphasis on the latter.

It is interesting to note that in the course of each budget year,

<sup>1</sup> See J. F. Ebersole, "Forecasting Corporation Income Tax Receipts," *Journal of the American Statistical Association*, March, 1929, supplement giving papers and proceedings of 19th annual meeting, pp. 219-224.



three revenue estimates are prepared for the national government. The first one is made up early in December, seven months before the beginning of the budget year, and is included in the budget document which goes to Congress. The second one is prepared at the end of the following June, or the day before the budget year begins. It takes into account the action of Congress in making appropriations and in modifying the revenue system. This estimate is used as a guide in the administration of the budget. The third estimate is made up the first of December, or exactly one year later than the first estimate. The budget year to which it relates is then nearly half completed; it is included in the budget for the succeeding year.

A notable example of revenue estimating for a state government is to be found in the Pennsylvania state budget for the biennium, 1925 to 1927.<sup>1</sup> This budget was prepared under the direction of Governor Pinchot by Clyde L. King, then secretary of state and finance. The tentative estimates of revenues were furnished by the auditor general's office. Prior to this time, the state legislature had accepted these estimates without question. But on this occasion the governor refused to accept them for inclusion in his first budget. He regarded them as being much too low in view of the general fund receipts of the then current biennium, which were estimated at about \$134,000,000 (actually they amounted to more than \$136,000,000). The auditor general's estimate for the succeeding biennium covered by the budget totaled \$124,000,000, or \$12,000,000 less than the actual receipts of the current biennium. Dr. King therefore undertook, with the aid of a special staff, to prepare an estimate for the governor independent of that of the auditor general. In so doing, he arrived at an estimate for the budget biennium aggregating \$132,850,000, which was later substantiated by the actual receipts. The method used by Dr. King in making the estimate was a combination of averages and direct valuation. In getting the averages, he took the figures of five bienniums prior to the one covered by the budget, the estimate extending over a biennium instead of a year. Of course, a fourth of the biennium nearest the budget period had to be estimated, but it was possible to do this quite accurately on the basis of the eighteen months which had already passed. The estimate for the budget period, in its simplest form, was arrived at by taking the average increment or decrement over the five bienniums for each source of revenue and either adding it to or subtracting it from the figure from the current biennium. This estimate was accepted for those sources of revenue the receipts of which had been fairly

<sup>1</sup> See pp. 243-272 of this document.



regular and which were not likely to be upset by economic or other conditions. For example, the tax on writs, wills, and deeds was regarded as such a source of revenue and therefore estimated on the basis of an average rate of increase. In the case of other taxes, such as those on the gross receipts of corporations and on the gross premiums paid to domestic insurance companies, the estimates for the budget period were arrived at by adding only two thirds of the average rate of increase to the figures for the current biennium. This was done in anticipation of a probable change in economic conditions. In the case of a revenue like the tax on anthracite coal, the estimate was made on the basis of future production with the union labor situation in mind, no use being made of averages. Estimates of revenues, such as this one, were arrived at solely by the method of direct valuation. Facts relative to current business and industry and affecting the sources of revenue were examined, and on this basis future receipts were prognosticated.

The practice in Massachusetts is also worthy of note in this connection. The budget commissioner of that state uses almost exclusively the method of direct valuation in estimating revenues. The fact that the state budget is formulated in the early part of the fiscal year to which it applies, as in England, facilitates the use of this method. At the time the revenue estimates are prepared, the commissioner has the actual receipts of the fiscal year preceding the budget year. He is also in a favorable position to forecast the conditions of the budget year, since he is, with respect to time, already in the second month of that year. His estimates, therefore, have a degree of accuracy that cannot be approached by those prepared sometime during the year preceding the budget period. But the Massachusetts practice cannot be generally adopted, since the budgets of nearly all state and local governments are formulated prior to the beginning of the budget period.

For almost half a century the city officials of Philadelphia have used a modified method of averages in estimating the miscellaneous revenues accruing to the general fund. From 1880 to 1919 the average of the aggregate amount of miscellaneous revenues collected during the five calendar years preceding the time of fixing the appropriations for the ensuing year was required to be taken as the estimated amount of the receipts during the latter year. The law permitted no exceptions to this rule. The city controller's annual estimates of miscellaneous revenues during this entire period of almost forty years were arrived at by averaging the receipts from these revenues over five-year periods. Not only was this method

applied to the total miscellaneous revenues, but it was also applied to the individual sources of revenue in so far as these sources were separately estimated. For example, if the receipts from a certain source of revenue over a period of five years were \$20,000, \$25,000, \$30,000, \$35,000, and \$40,000 for each of the years, the estimate for the forthcoming year was arrived at by dividing the aggregate, or \$150,000 by 5, which gave \$30,000. For an increasing source of revenue, such as the example just cited, the resulting figure was obviously much too low. Likewise, for a decreasing source of revenue, it was much too high. In either case, if other factors remained the same, a far more accurate estimate might have been obtained by adding the average increment to the figure of the last year or by subtracting the average decrement from this figure. Even then, the estimate would have been conservative since the latest actual figures were those of the penultimate year, a period one year removed from that for which the estimate was made. Moreover, no weight seems to have been given to any factor that might affect the amount of the receipts during the forthcoming year. If it was known that no receipts would accrue from a source of revenue which had been productive during the five-year period, the average for the period was included in the estimate just the same. On the other hand, nothing was included in the estimate for a source of revenue which did not produce during the five-year period, no matter how certain it was to augment the estimated receipts. Furthermore, "the yearly average of the five-year total of receipts from a source that existed during only part of the five years, or from a source whose rate in the year for which the receipts were estimated differed from the rate in effect during the five years," was taken as the estimated revenue to be derived from the same source during the forthcoming year.

With this experience in mind, the sponsors of the new Philadelphia charter, adopted in 1919, attempted to improve upon the existing method of estimating the miscellaneous revenues for the budget. They thought that an average of the receipts over three years was probably a better estimate of the anticipated revenues than an average over five years, so they proposed a three-year period. They also felt that the average over this shorter period should not be rigidly adhered to in all cases when arriving at the estimate, but should be subject to modification under certain conditions. They, therefore, drafted the following provision, which became a part of the new city charter: ". . . . the receipts from sources other than taxation and loans shall be estimated at the average of such receipts for the preceding three years, with due allowance for new sources

of receipts not existing during all or part of said period of three years, for sources of receipts existing during all or part of said period which will not be available for the ensuing year, for changes in rates, and for other factors not previously existing."

The actual practice under the foregoing provision has been quite varied. For some of the years since 1919 the method of taking one third of three years' receipts has been rather closely followed, while for other years it has been almost completely abandoned. In arriving at the estimated revenues for 1920, for example, the controller took one third of the aggregate receipts for 1916, 1917, and 1918, after having deducted liquor licenses which were not estimated to produce any revenue during 1920, and having added certain new or augmented sources for 1920. Even with these adjustments, some rather obvious factors seem to have been overlooked which in the end greatly affected the realization of the estimates. While the controller now has much wider latitude in estimating the miscellaneous revenues of the city government than he had prior to 1919, it cannot be said that the accuracy of his estimates has greatly improved as a result.<sup>1</sup>

The experience of the city of Boston is interesting in this connection. The budget commissioner, Charles J. Fox, uses very largely the method of direct valuation in estimating the city's miscellaneous revenues. While he is guided somewhat by the receipts of previous years, his estimates are, in the main, based upon a study of the various factors within the community which affect the inflow of miscellaneous revenues. For example, his estimates of revenues from building permits and licenses are formulated largely on the construction activities within the city. If conditions point to a diminution of such activities, naturally the estimates of probable receipts are reduced. In the matter of public welfare and soldiers' relief, where the city government is reimbursed in part by the state, Mr. Fox takes into consideration the number of individuals and families to be aided, together with the economic conditions within the community which may lead to an increase or decrease in the applications for relief. In estimating the revenues to be derived from Suffolk County, which is made up largely of court fees and fines, he gives weight to the social conditions within the locality that influence the probable receipts from these revenues, such as an epidemic of crime. Although the city government is limited under state law to the extent that the total of the estimated revenues can-

<sup>1</sup> From a memorandum prepared for the writer by Robert J. Patterson, chief accountant, Bureau of Municipal Research of Philadelphia, June, 1928.

not exceed the actual receipts from the same sources in the previous year, Mr. Fox says that this restriction does not bother him because his estimates are generally quite conservative and therefore rarely ever in excess of the established limit. Here again, as in the case of the Massachusetts state government, the revenue estimates for the city budget are prepared after the beginning of the fiscal year to which they apply, so that it is possible to know more about the conditions influencing them.

Practically every governmental unit has one or more flexible sources of revenue which can be expanded or contracted in order to balance the budget. A common illustration of such a source of revenue is the general property tax levied, as a rule, by all local governments. The amount of this tax is usually determined by deducting all other income from the total proposed expenditures of the budget. In other words, this tax is the last revenue to be ascertained and supplies whatever resources are required to balance the income with the outgo. The method of arriving at the rate of this tax is usually a simple mathematical process. The total assessed valuation of taxable property and the amount of the tax to be raised being known, the calculation of the rate is an easy matter. Generally the only unknown factor is the amount of the tax which will remain uncollected at the end of the budget period. In some cities, this amount is so large that allowance must be made for it in advance; otherwise the budget period will close with a deficit. In Philadelphia, for example, it was found that for a ten-year period, from 1916 to 1926, the average amount of the general property tax collected was between 94 and 95 per cent of the total tax levy. In other words, more than 5 per cent of the total tax levy remained uncollected at the end of the budget year. With such a large percentage of uncollectibles, it was necessary to make allowance for them in the calculation of the tax levy for each budget. Therefore, the charter adopted in 1919, to which we have referred above, made this provision: "The receipts from taxation shall be estimated by deducting, from the gross amount which would be yielded at the rate fixed, the average proportion of the amount uncollected at the end of each year during the preceding three years." The city controller, however, did not follow the letter of the law in making his estimates of the general property tax until 1928, his deductions having been much smaller than the actual uncollectibles up to that time.<sup>1</sup>

The practice in Boston presents an interesting variation from the

<sup>1</sup> See *Citizens' Business*, published by the Philadelphia Bureau of Municipal Research, Nos. 760, 770, 806, and 814.



Philadelphia rule of averages for the three preceding years. The general property tax levy for the city of Boston includes each year an item called "overlay," which is a certain percentage added to the total levy. The purpose of this item is to cover the uncollectibles resulting either from overassessment or the inability of the taxpayers to meet their bills. Under the state law, the city may set aside for uncollectibles up to 5 per cent of the total tax levy, but it has been the practice in recent years to set aside only 2 per cent. This allows about \$1,200,000 for uncollectible taxes, since the present tax levy aggregates approximately \$60,000,000. It is asserted that this allowance is more than adequate for the purpose.<sup>1</sup>

Legal provisions relating to uncollectible taxes vary widely from state to state and even from one local government to another within the same state. Hence no general method of estimating these taxes is applicable to the various local governments. A number of factors must be taken into consideration, such as the dates of tax collection, and the periods that taxes may remain delinquent. If collection is started early in the fiscal year, there is more likelihood that a larger percentage of the taxes will be paid by the end of that year. The procedure for handling delinquencies is also important in clearing up back taxes. Some cities are able to collect practically all their taxes during the fiscal year to which they apply; others succeed in collecting only about 90 per cent of the taxes levied. It seems possible, however, so to adjust the tax machinery of local governments and so to arrange the tax calendar with respect to the fiscal year that as much as 98 or 99 per cent of the total taxes levied will be collected during the budget year. An allowance of 1 or 2 per cent can then be made in the revenue estimates for uncollected taxes at the end of the budget period.

**When Should the Estimates Be Filed?**—The date upon which the estimates are filed should be governed largely by the period required for the formulation of the budget. There should be no intervening time between the filing of the estimates with the budget making authority and the beginning of work in formulating the budget document. Furthermore, only enough time should be allowed actually to complete the budget before the date set for its submission to the legislative body. Under such a schedule, the estimates can be prepared at the latest date which will permit getting the finished budget document into the hands of the legislative body. There is also another consideration, namely, the nearer the estimates are prepared to the period to which they apply, the more satisfactory

<sup>1</sup> Statement by Charles J. Fox, budget commissioner of the city of Boston.



they are likely to be. The date for returning or filing the estimates should, therefore, be as close to the beginning of the fiscal period covered by the budget as is possible in order to permit legislative action on the budget before the period actually begins. In many governmental units, this makes a readjustment of the fiscal year advisable, as we shall point out later.

Various dates are legally fixed for the filing of the estimates with the budget making authority. In state and local governments, these dates vary from one to six months prior to the time the budget is submitted to the legislative body. Of course, the period should vary somewhat depending upon the size of the governmental unit, but from one to two months would seem to be ample time for any state or local government. Most local budget making authorities can prepare their budgets within thirty days after the final estimates are filed. In the case of the state governments and some of the largest city governments, a period of sixty days is ample time. The national government takes about seventy-five days, or from September 15, when the revised estimates are filed with the Bureau of the Budget, to December 1, when the budget is practically ready to be submitted to Congress. Some of the state budget laws permit even longer periods than that of the national government for framing the budget. For example, the budget amendment of New York state allows three months (three and a half months in the case of a newly elected governor) for the preparation of the budget after the estimates are filed. But a few of the state budget laws leave the date of filing the estimates to be fixed by the budget making authority. In some respects, this is preferable to fixing the date in the law. The budget maker can then regulate the return of the estimates so as to allow only the necessary time for the formulation of the budget before submitting it to the legislative body. Some state budget laws go so far as to specify the time when the budget making authority or its staff agency must send out the estimate blanks to the spending agencies. This seems entirely unnecessary; it is a matter which should be left to the discretion of the budget making authority. If any date with regard to the preparation of the estimates is to be specified in state budgetary legislation, it should be merely the time when the estimates are to be filed. In the case of local budget laws, particularly those of statewide application, it seems advisable to set a time limit within which the estimates must be filed with the budget making authority. This helps to bring about uniformity in the budgetary procedure of the various local governments within each

state, which is one of desirable ends sought by the enactment of such laws.

In those governments, notably the state and city governments of Massachusetts, where the budget is sent to the legislative body and acted on after the beginning of the fiscal year to which it applies, the time of preparing the estimates may be fixed very close to the end of the previous year. It is even possible to prepare the estimates within the first month of the budget year. While this procedure undoubtedly makes for accurate estimating, both of expenditure requirements and anticipated revenues, it has at least one serious disadvantage: the government is without a financial plan for the early part of the budget year. So far as American practice is concerned, this disadvantage, in the opinion of the writer, more than offsets whatever gains may accrue from more accurate estimates. In England, however, the budget is always passed after the beginning of the fiscal year to which it relates. The estimates are usually laid before the House of Commons in February, but, although the fiscal year begins on April 1, the budget is not finally acted upon until some time during the summer or perhaps the early fall. To meet this situation the House passes what are called "votes on account," which are temporary authorizations to spend for the established services of the government during the period intervening between the beginning of the fiscal year and the time when the budget is voted. Since the executive, acting through the Chancellor of the Exchequer, formulates the budget and also recommends the action that is to be taken with respect to the votes on account, the practical result is that the English budget is tentatively adopted at the beginning of the fiscal year subject to possible downward revision before it is finally voted a few months later. It is largely for this reason that the British system works successfully. But in those American state and local governments where the budget is not passed until after the beginning of the fiscal year to which it applies, there are no votes on account—no temporary authorizations—by the legislative body to meet the necessary expenditures for the intervening period. These expenditures, such as are absolutely necessary to keep the governmental agencies going, are met on the basis of the previous year's appropriations or actual expenditures.<sup>1</sup> The proposed budget plan, therefore, does not apply to the early part of the fiscal year as it does under the British system, but rather the budget plan of the preceding year. This means for all practical purposes that the proposed budget is applicable to or controls only that part of the fiscal

<sup>1</sup> The practice in Colorado is in a way an exception. See below, pp. 417-422.

year which is subsequent to the date of its adoption by the legislative body.

*Effect of Fiscal Year on the Budget Calendar.*—Perhaps there is a greater lack of uniformity in the fiscal year of the various state and local governments of the United States than of any country in the world. Not a month in the year goes by that some governmental unit does not start its fiscal year. This situation, to say the least of it, makes comparable statistics on the finances of state and local governments very difficult, in fact, almost impossible, to compile. In its compilation of the financial statistics of states and cities, the United States Bureau of the Census finds itself continually struggling with the variations in the fiscal year. To add to this confusion, many state and local governments do not use the fiscal year alone, but they have other years, beginning at different times, such as the appropriation year, the budget year, the tax levy year, and so forth. This leads to confusion in conducting the fiscal business of these governments; the appropriations are made on the basis of one year, the accounts are kept on the basis of another year, and the taxes are levied and collected on the basis of still another year. Nor does the desire for variety stop at this point. In several state and local governments each group of funds has a different fiscal year, the general fund closing at one date, the various special expendable funds at other dates. Even spending departments and agencies within the same governmental unit have different fiscal years which do not agree with the general fiscal year of the unit. So we have variations in the fiscal year as between the different states, as between the state government and the local governments under its jurisdiction, as between the governmental unit and its various spending agencies, and as between the different funds under the control of the same governmental unit. That this approaches the ridiculous one cannot deny.

The fiscal year of the national government is from July 1 to June 30, it having been changed from the calendar year in 1842. It is uniform for all funds and departments of the government. Twenty-nine of the state governments have the same fiscal year as the national government, although only nine of these make it uniform for all agencies and funds. In the case of North Carolina, for example, July 1 to June 30 is the fiscal year recognized in the budget, but for several state agencies and funds there are other fiscal years ending on February 20, March 31, April 30, May 31, July 10, October 15, November 30, and December 31. Virginia, likewise, has several fiscal years for its agencies and funds which differ from

the general fiscal year running from July 1 to June 30. In addition, this state has an appropriation or budget year extending from March 1 to February 28 or 29. This arrangement puts the budget on a different time basis from that followed in closing the accounts and reporting the state's fiscal business, which is a difficult, if not an absurd, situation. The remaining nineteen states have their fiscal years on various dates. Nine of them begin their general fiscal or budget year on January 1. These are Georgia, Idaho, Louisiana, Mississippi, Missouri, Nevada, Ohio, Oregon, and South Carolina. Three states, Alabama, Indiana, and Maryland, begin their fiscal years on October 1; three, Colorado, Massachusetts, and Rhode Island, begin theirs on December 1. Wyoming and Washington start their fiscal or budget years on April 1, which is the same as the British fiscal year. Pennsylvania begins its fiscal year on June 1, and Texas on September 1. Among the 247 cities with a population of 30,000 or more, 144 have fiscal years which are identical with the calendar year, 29 have fiscal years which coincide with the national fiscal year, and the other 74 have fiscal years beginning on various and sundry dates.<sup>1</sup> Nearly every month in the year is represented among the beginning dates of the last named group of cities. The most unusual date for the beginning of the fiscal year is to be found among the third class cities of Pennsylvania, where, according to a general provision of the state law, it is fixed as the first Monday in January. Under this arrangement, the fiscal year varies both as to date of beginning and as to length in days. For example, it began on January 3 in 1927, on January 2 in 1928, and on January 7 in 1929; between the first two dates there is a period of 364 days and between the last two dates a period of 371 days. The variation of a day one way or the other in the length of the fiscal year does not greatly affect the comparability of financial data, but when the difference between two fiscal periods is as much as a week, as it may be under this arrangement, these data can no longer be regarded as strictly comparable. In the small cities and in county, town and district governments, the fiscal years vary even more widely than they do in the larger cities. The fiscal years of the hundred county governments in Virginia, for example, begin during almost every month in the year. This is true of the county governments in several other states where a uniform fiscal year has not been fixed by state law.

It is apparent from the foregoing discussion that the majority of state governments prefer the national fiscal year of July 1 to June 30.

<sup>1</sup> *Financial Statistics of Cities* for 1925, pp. 84-88.



Most of the changes made in the state fiscal year in recent years—and there have been many—have resulted in the adoption of the national fiscal year. The tendency has also been to make this fiscal year uniform for all state agencies and for all state funds. Only the state of Ohio has recently seen fit to change the beginning of its fiscal year from July 1 to January 1, the latter date being made uniform for all cities, counties and other governmental units within the boundaries of the state.<sup>1</sup> The city governments, particularly those with 30,000 or more population, are overwhelmingly in favor of the fiscal year beginning on January 1. The preference among the smaller cities and the counties seems to be for the fiscal year which is identical with the calendar year, although a number of counties have the fiscal year of July 1 to June 30 established by state law.

Why are the most popular dates for the beginning of the fiscal year in state and local governments either January 1 or July 1? The state governments prefer the fiscal year of July 1 to June 30 largely on account of the fact that this period corresponds to the national fiscal year. In the case of federal aid to the states for the construction of highways and for other functions, there is an advantage in having absolute conformity in the fiscal years. This arrangement greatly simplifies the problems of reporting on the various funds. The city and other local governments prefer the calendar year as their fiscal year. This is probably due to the fact that it practically coincides with their political year. While most governmental agencies do not have a preference, some do. Educational agencies and institutions prefer the fiscal year of July 1 to June 30, because of the fact that their working year practically corresponds to it. Public works agencies, however, favor the calendar year as the fiscal year, since their activities are slackest in the winter season at which time they make plans for the coming year's projects. Because of the preponderance of public works activities in local governments, particularly cities, it is apparent that the calendar year would serve very satisfactorily as the fiscal year in these governments.

As a matter of fact, it makes very little difference from the standpoint of financial information whether the fiscal year in state and local governments begins on January 1 or July 1 so long as there is uniformity, at least, within each of the several states. Financial reports and statistical analyses can be made equally well on the basis

<sup>1</sup>After less than two years' experience with this arrangement, a special legislative committee (Joint Committee on Economy in the Public Service) recommended to the 1929 legislature that the fiscal year beginning July 1 be restored for the state government, thus avoiding the use of temporary appropriations pending the adoption of the budget. See below, pp. 420-421.



of either period. From the standpoint of budgeting, however, there are certain factors in connection with the fiscal year that deserve consideration. One of these relates to the time of the meeting of the legislative body in respect to the beginning of the fiscal year. If the budget is to be adopted and the budget bills enacted, as they should be, just before the date of the opening of the fiscal year, then the legislative body must meet prior to this date. This does not present a difficult situation in the case of the local governments, since their legislative bodies generally meet at frequent intervals throughout the year. The only problem is in adjusting the political year so that a legislative body of newly elected members rather than members whose terms of office soon expire will pass on the budget. Either January 1 or July 1 for the beginning of the fiscal year will meet this requirement.

But in the case of the state governments the situation is not so easily met. All state legislatures meet in January, except those of Florida, Georgia, and Louisiana, which meet in April, June and May, respectively. They also meet in regular session, in a majority of the states, only once in a biennium. Furthermore, it is not likely that the time of convening these bodies will be changed in the near future. Such a change would involve a constitutional amendment in every state, as well as a readjustment of the political year. The practical approach, therefore, seems to be through the proper arrangement of the fiscal year. If the fiscal year of the state governments began uniformly on July 1, the legislatures of all states would be able to pass on the budget and enact the budget bills before the year started. The states of Florida, Georgia and Louisiana would then be in a specially advantageous position, since their legislatures would meet just a short time before the fiscal year opened. In the other states, the meeting of the legislature would be six months ahead of the beginning of the fiscal year. Allowing two or three months for the preparation of the estimates and the formulation of the budget, this would place the date of estimating eight or nine months in advance of the fiscal year, which is a rather long period especially in view of the fact that more often than not the estimates cover two years instead of one.<sup>1</sup>

Those states, whose fiscal years begin on December 1 or January 1, are at the disadvantage, as we have pointed out above, of not having the budget in force during the early part of the fiscal period, since two or three months, or perhaps more time, will have elapsed

<sup>1</sup> In Alabama the estimates extend over four years, since the legislature meets quadrennially in regular session.

before the legislature can act on the budget. From the standpoint of good financial planning, this is undoubtedly a serious situation and ought to be avoided if possible.<sup>1</sup> The only feasible way to do it seems to be to move the opening date of the fiscal year ahead so that it will follow the legislative session. In this respect, Washington and Wyoming have a very good arrangement; their legislatures meet in January and their fiscal years start on April 1. This gives ample time for the legislature to pass the budget bills, and at the same time it permits the estimates to be prepared within five months of the beginning of the fiscal year. But the fiscal year which begins on April 1 does not correspond to the national fiscal year and besides it is not popular with the state governments. Nor does Virginia solve this problem by having a budget or appropriation year beginning on March 1, while the fiscal year begins on July 1. The fiscal year should always serve as the budget year, since it is extremely difficult to secure complete budgetary information on any other basis.

Three states—Alabama, Indiana, and Maryland—go to an extreme in moving the opening of the fiscal year away from the legislative session. In each of these states the legislature meeting in January enacts the budget bills for the fiscal period beginning the first of the following October. The estimates must be prepared in each instance some ten or eleven months before the opening of the fiscal period to which they relate. In the case of Alabama, they are required to be filed eleven and a half months prior to this period; since the budget covers four years, this means that the estimates for the last year of the quadrennium are prepared almost four years in advance.

After all, if the majority of the state legislatures continue to meet in January, perhaps the most satisfactory fiscal year for state governments is from July 1 to June 30. The local governments within each state may then have the same fiscal year or one which coincides with the calendar year.

Considerable improvement may also be made in the national fiscal arrangement, but it is unlikely that anything will be done. Congressmen elected to office in November of the even numbered years do not sit in a regular session of Congress until December of the following year; the so-called "lame ducks," that is, defeated candidates for reelection, and congressmen retiring from office sit in the session which meets in December following the election and take

<sup>1</sup> For a discussion of the various expedients which are resorted to in meeting this situation, see below, pp. 417-422.

action on the budget for the forthcoming fiscal year. Attempts have been repeatedly made to change this situation, but without success. The regular sessions of Congress, instead of opening in December—seven months before the beginning of the fiscal year, might open much later and still provide sufficient time for the passage of the appropriation bills. When these bills are enacted at a short session of Congress, they must go through in a period of three months, since this session ends on March 4. More time is usually taken to enact appropriation bills at a long session of Congress, which is unlimited in length; however, the bills are generally passed in this case before the end of May. If Congress continued to meet in regular session each December, it would be possible to move the national fiscal year back to April 1 and still have plenty of time to take action on the budget before the year began. In fact, three months should provide ample time, so that Congress might meet regularly in January, the newly elected congressmen taking office at this time. With this arrangement the revised estimates could be prepared within six months of the opening of the fiscal year, whereas they are now prepared more than nine months ahead of this date. This would be conducive, as we have already pointed out, to greater accuracy in estimating the needs of the government since six months' actual experience of the year preceding the budget period would be available. But even the present arrangement is superior from the standpoint of estimating to that of France, where the estimates for the national budget are prepared fourteen or fifteen months before the beginning of the period to which they apply.

Another important factor from the standpoint of budgeting, which has a bearing on the fiscal year, is the arrangement of the tax calendar. Tax collections should start early in the fiscal year, so that adequate funds will be available to meet the current bills of the government. Otherwise, it will be necessary either to carry over a surplus for this purpose from the preceding year or to resort to the expedient of short time borrowing as a means of current financing. Neither of these methods is as desirable as having the inflow of revenues approximately equal the outgo of the government.<sup>1</sup> The latter condition can be brought about only by synchronizing the tax calendar with the fiscal year.

In all governmental units, the fiscal year should be the budget or appropriation year.<sup>2</sup> There should be no other legally authorized

<sup>1</sup> For a discussion of the problems of current financing, see below, pp. 494-495.

<sup>2</sup> Unless otherwise explained, wherever the "budget year" or "budget period" is referred to in this volume, it is used as being synonymous with the fiscal year or the fiscal period. The fiscal period is merely another term for the fiscal year or

period for the administration of the budget plan, for the opening and closing of accounts, for financial reporting, or for the compilation of statistical data relating to governmental income and outgo. The fiscal year should be uniformly applied to all agencies and funds of the governmental unit. There would also be some advantages to having uniformity between the fiscal years of the various states, as we have already indicated. Certainly, it seems advisable that all the local governments within each state should follow a uniform fiscal year. In establishing this year, the effect of the state budget calendar upon the expenditures and income of the local governments should be taken into account.

**Collection of Supplementary Data.**—We have already called attention to the fact that by no means all of the information required in budget making can be furnished by the written estimates. Supplementary data should be supplied through field investigations and surveys. Before concluding this chapter we should say something about the investigation and study of the estimates by the budget staff agency or by special investigators.

The budget staff agency should be busy throughout the fiscal year collecting budgetary data. During this time it should gather a large part of the information which we have discussed above in Chapter VI, particularly the data relating to the development and expansion of spending agencies, to governmental income and taxation, and to the economic, industrial and social conditions existing within the jurisdiction of the government. If the budget staff agency is not equipped to do this work, then the budget maker should call upon other governmental departments and agencies for assistance, or he should employ specialists from private concerns. The staff members of research organizations, which devote their time largely to governmental problems, are often available for this work.

The general organization, methods of work, and growing expenditures of governmental departments and agencies, particularly those of state and municipal governments, need to be carefully surveyed at frequent intervals by competent individuals who are not directly interested in the appropriations which are granted to these departments and agencies. Such individuals, as a general rule, should be secured from superior governments or from private organizations. State governments often have specialists who are available for surveys of local governments, particularly in the fields of health, educa-

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fiscal biennium. It is not used, as in France, to designate a period three or four months longer than the fiscal year, the purpose of which is to enable the accounts for the fiscal year to be closed after the bills of that year have been paid.



tion, and public welfare. The national government, likewise, has specialists who may be secured to make surveys in both state and local governments. Several governmental research organizations, especially bureaus of municipal research, have men who are available for making these studies. The New York Bureau of Municipal Research, for example, has made a number of surveys and studies of state and local governments during recent years which were definitely related to the budget. These surveys and studies can be of great assistance to the budget maker. With them, he has a much broader basis for judgment in passing on the requests of the various departments and agencies for appropriations; he has before him not only the estimates of these departments and agencies but also the findings of disinterested specialists.

There are a number of specific problems relating to the budget which can be studied at any time during the fiscal year. The more important of these pertain to the operation, maintenance and repairs of the different plants and buildings owned by the government. Competent persons, who may be attached to the budget staff agency or to some governmental department, should make an annual survey of all plants and submit a report on the conditions of each to the budget maker. In this way the cost of operation of heating and lighting plants may be checked up. Often mechanical adjustments can be made in such plants, or different methods of firing used, which will greatly reduce the consumption of fuel or permit the use of a less expensive grade of fuel. Needed repairs may also be anticipated and the urgency of those for which requests are made may be investigated. This type of field study is particularly desirable in those state and city governments which operate a number of institutions of one kind or another. A few of the state governments now follow this procedure in checking up on plants and buildings. For example, in the preparation of the Illinois state budget under Governor Lowden, the department of finance secured specialists from other state departments for this purpose. The architect from the department of public works and buildings directed the examination of all state buildings and made written reports to the department of finance covering the nature and cost of all necessary repairs. Likewise, the supervising engineer of the same department examined the machinery of the various state plants and estimated the cost of needed repairs and replacements. Most state governments and large city governments would have in their employment persons competent to perform this work, just as in the case of Illinois. If such



persons are not available in the government service, then they should be secured temporarily from the outside.

The budget staff agency should have available cost data of various kinds, such as consumption figures, purchase units and prices, per capita institutional costs, and so forth, as a means of checking up on the estimates. Probable price trends are also of some value in the examination of estimates for commodities. The additional information, whatever it may be, should be gathered with one purpose; that is, to enable the budget staff agency to detect careless or inflated estimates.

There are several problems in connection with the income of the government, as we have already indicated in Chapter VI, which are just as important as those relating to the expenditures. Frequently, the budget staff agency overlooks these problems and devotes its entire attention to a study of the expenditures. This should not be the case. Data should be gathered relative to the cost of collecting the various sources of revenue. Not infrequently it happens that the expense of collection is so great as to consume most of the receipts. The amount of delinquent taxes should be ascertained so that the proper allowance can be made in the budget and steps can be taken, if possible, to correct the situation. The effect of taxes and other sources of revenue on commerce and industry should be studied with the idea of removing unnecessary burdens. In fact, the revenue system of every government should be surveyed periodically to ascertain if it is being kept abreast with existing economic conditions or with the demands of the time. This type of survey is illustrated by the reports of the special joint committee on taxation and retrenchment of the New York state legislature, which during the past eight or ten years has been studying, among other things, the problems of state taxation. In carrying on this investigation, the committee has had the assistance of staff members of the New York Bureau of Municipal Research and the National Institute of Public Administration.

Finally, a survey of the economic elements—the wealth, industries, commerce, natural resources, and taxable properties—of the governmental area is needed as a basis for determining the probable cost of public functions over long periods of time and as a guide in deciding many questions of policy. Such surveys have already been attempted in a few state governments in connection with budgeting. The Virginia budget law, for example, requires “a general survey of the state’s financial and natural resources, with a review of the general economic, industrial and commercial condition of the common-

wealth." Under this provision, attention has been directed in the governor's budget message to agricultural development, bank resources, mineral output, coal production, forest preservation, water power, trade and commerce, and fisheries. Where the government comes into vital relations with any private economy, the status of that economy should be carefully studied in connection with the budgetary requirements. In short, business, industry, and commerce ought be given a regular place in the budget. We would then approximate what A. E. Sheldon, former director of the Nebraska legislative reference bureau, once called the "social budget." Mr. Sheldon used this term in arguing for a budget that would show the relation of the growing expenditures of the government to the increase in the various forms of wealth and taxable resources.

## CHAPTER XI

### REVIEW AND REVISION OF THE BUDGET ESTIMATES

A PAINSTAKING review and revision of the estimates are necessary to the formulation of the budget. No mere compilation of the estimates by departmental clerks or by detached financial officers can serve the purposes of a budget. Experience in several state and city governments indicates that such a compilation is practically useless as a guide in shaping legislative judgment or as a basis for legislative action. This is due to the fact that the estimates are nearly always inflated by the officers who prepare them, either intentionally or as a result of superabundant enthusiasm for their work. Since these officers are primarily interested in the activities under their supervision and naturally regard these as the most important that the government is carrying on, they cannot be greatly blamed if they do inflate their estimates. This, it seems, is to be expected. But the fact remains that such officers cannot be depended upon to prepare estimates which, when compiled, will present a coherent and well-balanced financial program for the whole government. They generally lack perspective and appreciation of the larger governmental problems.

For this reason, the estimates are little more than independent expressions of opinion by the spending officers of the requirements for their respective units of the government. They need to be carefully scrutinized, compared the one with the other, apportioned in amounts according to the relative importance of the services, and finally determined in the light of the total income—either available or proposed—of the government. Such steps must be taken before a unified financial plan can be produced. This means nothing less than review and revision of the estimates by a responsible central authority—an authority who sees the work program and the financial needs of the government as a whole, and from the administrative point of view. Review and revision of this character are absolutely necessary; in fact, this procedure is the only one by which a balanced and workable budget can be formulated.

**Who Should Be Responsible for Reviewing the Estimates?—**Undoubtedly the authority which formulates the budget for the

legislative body should review the estimates. No other governmental authority can properly be made responsible for this task. Among the budget making authorities which have been established in this country, the most effective, as we have pointed out in Chapter IX, is generally conceded to be the chief executive or administrative officer. Being at the helm of the administration, he is in a position to have a first-hand knowledge of the needs of all spending departments and agencies of the government. Moreover, he is a high policy-shaping officer. For him the review of the budget estimates ought not to be a difficult task.

We do not mean to give the impression that the budget maker should perform all the detailed work incident to the review of the estimates. The budget staff agency should do the preliminary work of sifting the various items of the estimates; it should investigate the performances and costs of the spending agencies, and judge, as far as possible, the accomplishments of the various services. In short, the budget staff should furnish the technical or expert advice with reference to the activities and needs of the government. The budget maker, however, should be fully responsible for all important decisions, and he should arrive at these decisions after weighing the available budgetary information. This information, if it is to be at all complete, is of a varied and complex nature, as we have indicated in Chapter VI. It is not easily mastered; but without it, the budget maker must labor under the handicaps of limited perspective and narrow vision.

What we have just said relates largely to expenditure estimates. The budget maker should not approach the task of formulating the budget with an eye single to expenditures, as is frequently done. The budget, if correctly proportioned, should give equal emphasis to both the income side and the expenditure side. This means a thorough review of the revenue estimates by the budget maker. If these estimates have not been prepared under his direct supervision, there is that much the more reason why he should not only review but perhaps revise them. Here again the budget staff agency can assist him; it can produce additional information, suggest new sources of revenue or changes in existing sources, and study the economic effect of the various taxes and other revenues.

**Limitations on the Revision of the Estimates.**—Certain limitations are often imposed upon the action which the budget maker may take in revising the estimates. Indeed, this is frequently the case in those governments where the chief executive is the budget making authority. The idea seems to be to prevent the executive

from curtailing certain estimates, particularly those of the legislative body and of the courts. It is an offshoot of the old notion of the tripartite division of powers in our system of government.

The national budget law provides that the President must include in the budget without revision the estimates of Congress and of the Supreme Court. Otherwise, the President is free to revise the estimates as he may see fit. The Maryland budget amendment forbids the governor to revise the estimates of the legislature, of the judiciary, and of the public schools. West Virginia has a similar provision in its budget amendment, limiting the action of the board of public works which is the budget making authority in that state. The budget amendment recently adopted in New York state requires the governor to include the estimates of the legislature and of the judiciary in the budget without revision, but with such recommendations as he may think proper. Provisions denying the governor the power to revise the estimates of the legislature and of the judiciary are contained in the budget laws of a number of states, notably Colorado, Oklahoma, New Mexico, South Carolina, and Virginia. The budget laws of Nevada, Utah, and Wyoming exempt the estimates of the legislature, but not those of the judiciary, from the governor's revision. In several states, however, the governor is given a free hand in revising all the estimates. For example, the budget amendments of California and Massachusetts do not limit the governor's authority in this regard. As a general rule the city and other local governments do not limit the budget maker's power with respect to the revision of the estimates. It is only in the national and state governments that limitations of this kind have been thought advisable, and even in these governments the idea has not been consistently applied. In some cases, the exemption from revision by the budget maker applies only to the legislative estimates; in other cases, to both the legislative and the judicial estimates; and in still other cases, to the estimates not only of the legislature and of the judiciary but also of the public schools.

There seems to be no need for placing restrictions on the power of budget maker to revise any or all of the estimates, except in those instances where the legislative body is not allowed to increase the items in the budget. Even in such instances (*e.g.* Maryland), the legislative body is permitted to increase or decrease its own requirements, and to increase those of the judiciary. Assuming that the governor had reduced the estimates through being allowed to revise them, this procedure would enable the legislature to restore the original amounts. And since, under the Maryland amendment,



legislative action on the budget bill is final, not requiring the subsequent approval of the governor, the wishes of the legislature would stand. The New York budget amendment, while it denies the governor the right to revise the estimates of the legislature and of the judiciary, requires him to approve the appropriations for these two branches before they become legally effective. Since the governor of New York has the item veto, he may reduce the appropriations by cutting out certain items before approving them. The legislature would then have to override his veto in order to restore the items. If the legislature has adjourned at the time the governor approved the appropriations, his vetoes, if any, stand without question. A revision, in the first place, of the legislative and the judicial estimates by the governor seems preferable to this roundabout procedure at the end. The revision of the estimates is likely to be less arbitrary than the exercise of the veto power at the time of approval, assuming that the governor is inclined to be at all capricious about the matter. As to the estimates for the public schools, there is no logical reason why they should be exempt from revision by the governor. Public education cannot be regarded as one of the powers or branches of government on an equal footing with the legislature, the executive, and the judiciary. It is essentially an administrative function in the state governments, and as such, its financial requirements ought to come within the purview of the executive, subject to whatever revision he may deem necessary in budgeting them.

The foregoing discussion applies only to expenditure estimates. There are, in general, no direct limitations on the powers of the budget maker to revise the revenue estimates which may be prepared for him by independent financial officers. By implication, in some instances, the budget maker's authority in this direction would seem to be limited, but not to any great extent. In many instances, the revenue estimates are prepared by the budget staff agency under the immediate supervision of the budget maker; they are, therefore, revised, altered, or changed as the budget maker may see fit in the process of making. When completed, they represent what the budget maker thinks will be the probable receipts.

**Methods and Practice of Reviewing and Revising the Estimates.**—The review of the estimates, as we have already pointed out, is largely a task for the budget staff agency. This involves a preliminary scanning of all the estimates as soon as they are returned by the various spending agencies, with tentative totals for each and an aggregate of all expenditure requirements which can be

compared with the anticipated income of the government. In making this preliminary examination, the members of the budget staff agency should note those features which are to be given further study, or which are to be checked in the light of data gathered by the staff agency during the year. The budget maker should be informed as to the tentative totals and the relation between proposed expenditures and anticipated income just as soon as the preliminary examination has been completed. He may then give the staff directions which will aid in further study and in the final revision of the estimates. It is important to anticipate at this stage the major reductions that are to be made in the expenditure estimates, assuming that such reductions are necessary.

Following the preliminary examination of the estimates, the budget staff agency should begin a detailed study, subjecting all the estimates to careful scrutiny, making investigations and securing additional data wherever necessary. This, again, is primarily a task for the budget staff; indeed, in many governments, it is the principal one that the staff performs. The usual procedure is for the budget director, or the members of the staff, to go over the estimates with the directing heads of the various departments and institutions. Sometimes the estimates are divided among the members of the budget staff, those of certain spending agencies being assigned to each member for intensive study after which a report is made to the head of the staff agency. In this report the investigator sets forth such collateral information as may be pertinent and makes suggestions for revision or reapportionment of the amounts requested in the estimates. This is a desirable procedure to follow in any large government, especially where there are several examiners on the budget staff agency. It is the method used by the national government and by the city of New York. In New York City the investigators have practically the same departments and agencies assigned to them year after year, so that they become thoroughly conversant with the expenditure requirements. At the same time they accumulate a mass of information about the workings of the agencies which they examine; this gives weight to their opinions and recommendations. Thus they help to give continuity to departmental policies despite changing administrative heads.

After the reports of the investigators are filed, the budget director usually holds conferences with the heads of the various spending agencies. These conferences may be held either in the office of the budget director or at the department or institution concerned. Usually they are held at the budget director's office. The member of

the budget staff or the investigator who studied the estimates of the particular spending agency is present at the conference. The head or other officer of the spending agency is given the opportunity to go over the estimates in the light of the investigator's report and to present the case of the spending agency in asking for funds. The investigator may reply to this if he thinks it necessary, his position being that of defending the public treasury. The budget director may make further inquiries to enable him to come to a decision as to what he thinks should be allowed in view of the instructions which he has received from the budget making authority. He should study all the available data with reference to the requests of each spending agency. Often it is advisable for him to visit each spending agency so that he may visualize the work that is actually being done and the various processes of operation. Having mastered in this way the essential details of the expenditure requirements, the budget director or other head of the budget staff agency is ready to take up the estimates with the budget making authority.

From this point, there are at least two methods of proceeding with the review of the estimates. The budget making authority may confer with the budget director or other head of the staff agency and upon the basis of the latter's suggestions take action on the estimates, or this authority may hold conferences with the heads of the various spending agencies, the budget director being present, and upon the basis of these conferences, the data supplied by the budget staff agency, and personal investigations, proceed to a revision of the estimates. The former method is followed in the national government and in a few of the larger states. The latter method is followed in the majority of the states and in practically all the local governments. A choice between the two methods depends largely upon how much time the executive can give to a detailed study of the estimates and whether or not he has a budget staff agency upon which he can rely for a careful examination of the estimates. In the case of the President, it would be out of the question for him to attempt a detailed examination of the estimates; besides, he has a budget staff to do this work. The same thing applies in a lesser degree to the governors of some of the larger states. But many of the states, as we have indicated above in Chapter IX, do not have staff agencies to assist the governor or other budget making authority. In these instances, only temporary assistance can be secured in reviewing the estimates, the result being that the budget maker must familiarize himself with the details of the estimates. He has no one to depend upon for supplementary

information or for suggestions. The same thing is true in many of the local governments. For the budget maker to endeavor to get along without the aid of a permanent staff agency is at best a make-shift arrangement, except in the smaller local governments.

*Illustrations of Current Practice.*—Under the method of reviewing the estimates followed by the national government, there is a so-called board of estimates in the Bureau of the Budget which conducts hearings or conferences with the departmental and bureau heads, considers the reports of the investigators, and suggests revisions in the estimates.<sup>1</sup> It is upon the basis of the decisions of this board that the President finally acts on the estimates, the amounts agreed upon being included in the budget. These amounts constitute the maximum that the spending agencies may request when appearing later before the congressional committees. While the President does not actually take part in the deliberations of the board of estimates, he is apprised of its decisions through the Director of the Budget. All decisions of the board are, of course, tentative. Only the President's judgment is final; he may approve the board's action, or he may amend it as he sees fit. The important point in this procedure is that the revisions of the estimates are actually made by the board of estimates, of which the Director of the Budget is the dominant figure, rather than by the President; but these revisions must, in general, meet with the President's approval or fail to be included in the budget.

In certain states something of the same procedure is followed in reviewing the estimates as in the national government. The task falls upon the budget commissioner, or upon the director of finance, and he uses his office staff to assist him. In Massachusetts, for example, the budget commissioner is charged with the responsibility of seeing that the estimates are carefully reviewed and that supporting information is gathered as a means of judging their adequacy or inadequacy. It is his duty to present to the governor a revision of all expenditure estimates for the latter's examination and approval. In other words, the budget commissioner through his staff does all the preliminary work for the governor, merely keeping in mind the general policy which the governor has previously expressed to him. The main feature in the governor's policy is usually the fixing of the general property tax for the state at a certain figure. With this in mind, the budget commissioner must then revise, change, or amend the expenditure estimates so as to bring the aggregate within the total anticipated income of the state government.

<sup>1</sup> See above, p. 296 for the membership of board of estimates.



The figures thus arrived at in the process of review are likely to meet with the approval of the governor, since they are practically arrived at under his supervision. He may not, and usually does not, follow all the details, but in the aggregate he sets the figures which are to go in the budget.

Another example of this type of procedure for reviewing the estimates is the one that was inaugurated in Illinois under the administration of Governor Lowden. It was made possible through the reorganization of the administrative agencies of the government under which a department of finance was established as a general fiscal agency. The head of this department, the director of finance, is charged with the review of the estimates and the preparation of the budget for the governor. He is permitted to "approve, disapprove, or alter the estimates" in the process of reviewing them for the governor. Whatever action he may take in this regard is, of course, in keeping with the general fiscal policy which the governor may have outlined to him. His decisions are subject to approval by the governor, the latter being free to approve them or not. During his administration, Governor Lowden gave considerable attention to the details of budget making. He held conferences with his chief administrative officers at which the director of finance and the superintendent of the budget were usually present. At these conferences, the proposed revisions in the estimates were discussed, suggestions were made by those concerned, and decisions were arrived at which all understood and were able to support when the budget finally went to the legislature. The budget recommendations of the governor, therefore, had the general backing of his administration. Although the legislature was not limited in the action which it might take on the governor's recommendations, it did not under these circumstances see the necessity of making any drastic changes in his proposals. At least, there was no agitation for such changes on the part of the administrative officers, the governor having made it clear that all requests must go to the legislature through him. In other states which have adopted the Illinois form of organization, the governors have followed with more or less success a procedure similar to the one inaugurated by Governor Lowden for the review and revision of the estimates. Where anything like the cabinet type of state administration prevails, the governor will undoubtedly find this method advantageous in studying the estimates and in arriving at the figures which are to go in his budget.

In several states the governor delegates to his budget staff agency, if he happens to have one, very little of the detailed work of review-



ing the estimates. He sets the dates for the conferences with the heads of the various spending agencies; he presides at these conferences, sometimes with the aid of other administrative officers; and he directs the revision of the estimates. Unless the governor has an unusual grasp of the financial requirements of all state agencies, this method is likely to result in a cursory examination of the estimates and more or less snap judgment in making the revisions. Financial data in support of the estimates, as a broad basis to work from, are generally lacking. These data can be secured only where there are proper staff facilities for the study of all details of the estimates. Several governors visit all the state institutions and most of the state departments during the budget making period. This is worth while for the purpose of getting a general impression of what the various state agencies are doing, but such visits cannot be regarded as a substitute for a thoroughgoing technical study of institutional and departmental problems. On such occasions, the governor can give only two or three hours at most to a cursory survey of each agency. He usually notifies the head of the agency of his intended visit some time in advance, so that when he arrives the stage is set. He sees what he is intended to see and very little more. In those states with biennial budgets, these visits from the governor occur only once or twice during his term of office. This is thoroughly inadequate for even a general knowledge of the situation unless the governor has already had several years in some other official capacity that would bring him in contact with the state agencies. Although he may find time to make yearly, half-yearly, or even quarterly visits to the state departments and institutions, he will still be in need of the assistance of trained investigators in conducting studies of the expenditure requirements of these agencies.

The foregoing discussion has been directed at the practice in those states where the governor is the budget making authority. As we have already pointed out in Chapter IX, several states have boards or commissions which act as the budget making authority. These boards or commissions usually represent attempts to bring together as a council the heads or responsible officers of the more important spending agencies of the state government. In the review of the estimates, the board type of budget making authority may act with or without a staff agency. In any event, it lacks leadership when it undertakes the revision of the estimates. There is no one individual responsible for final decisions in cases of conflicting judgments or opinions; all such conflicts must be settled by compromises in which the best interests of the state as a whole may

be disregarded. The governor, who is generally a member of the budget board, has no more authority in making decisions than does any one of several powerful administrative officers. In some instances, legislative influence is also introduced at this stage by having certain members of the legislature sit on the budget board. This complicates the process still further and often makes it even more difficult to arrive at decisions which are in keeping with what the state services actually require. It is a question usually of too many cooks spoiling the broth. Budgeting, more than any other fiscal process, seems clearly to demand individual responsibility, at least in its initial stage. No other method of approach gives results which appear to be quite as satisfactory.

What we have just said about the review and revision of the estimates in state governments applies with equal force to local governments. In those cities which have the strong mayor or the manager forms of government, much the same procedure is followed as in the states where the administrative organization has been largely centralized under the governor. The mayor or the manager usually depends upon the director of finance, the budget commissioner, or the budget director, to review the estimates, to gather collateral information, and to suggest changes in the requests. The chief administrative officers, composing a sort of cabinet, are generally called in by the mayor or the manager to discuss the estimates in informal conferences. Usually the budget officer is present at these conferences and presents the facts which he has gathered in rebuttal to the arguments of the administrative officers for their requests. In this way the mayor or the manager arrives at his decisions as to the revisions or adjustments which are to be made in the estimates. He may, however, conclude that it is desirable to leave the estimates as they stand and attempt to find new or increased sources of revenue as a means of financing the larger expenditures. This is a matter for him to decide; the responsibility is clearly upon his shoulders. The important point in this connection, nevertheless, is that the foregoing method generally provides him with adequate information and expert advice upon which to act.

The commission form of city government is very different in this respect; it presents a peculiar problem in budget making. This arises from the type of overhead organization, usually consisting of five commissioners. These commissioners are on an equal footing so far as source of power and administrative authority are concerned. Furthermore, they are not only the multiheaded executive of the city government, but they also constitute the legislative body.

In this dual capacity, they both propose and vote the budget. One of their number, the commissioner of finance, is generally made responsible for bringing the estimates together, but the review and revision of the estimates is usually a joint task. In the process, logrolling tactics are frequently in evidence; each commissioner concedes something to the others in order that he may obtain their approval of his requests. The budget is often improperly balanced as a result, but there seems to be no way to prevent this from happening under the commission form of government.

In those local governments which are more or less decentralized from an administrative standpoint, as in a number of cities and in most counties, budget boards are frequently established. These sometimes take the form of boards of estimate, or estimate and apportionment.<sup>1</sup> The purpose of these boards, whatever their form, is practically the same as the budget boards in state governments. The methods which local budget boards follow in reviewing and revising the estimates are similar to those of the state boards and in the end about the same results follow. Personal responsibility is lacking; and the budget is often more of a fiscal makeshift than a real plan. Local governments, particularly counties, will continue to experience this difficulty in budget making until some form of government which centralizes administrative authority in a chief executive officer is generally inaugurated.

*General Methods of Revision.*—An examination of current budgetary practices reveals at least three different methods of revising the estimates. The first one of these is by means of percentage cuts, the second one is based on a study of probable needs, and the third one is executed through the fixing of maximum figures. The first method is by far the simplest of the three and at the same time the most unsatisfactory. It rests upon an erroneous assumption, namely, that all estimates are inflated; furthermore, that they are inflated to about the same degree. If the estimates of some spending agencies in a governmental unit are "padded," it does not follow that all estimates are—certainly, not to the same degree. The only way for all estimates to be uniformly "padded" would be for the heads of the various spending agencies to be in collusion which is not likely to happen in a government of any size. Besides, the practice of "padding" estimates is no longer in evidence as it was a few years ago when revisions were made largely, if not entirely, by legislative committees. Senator Reed Smoot, in speaking of the

<sup>1</sup> See above, p. 287.

practice in the national government prior to the adoption of the budget system, remarked:

A certain administrative officer said to me once, after the passage of the appropriation act carrying the item for his bureau, "Well, Senator, you treated us all right."

"What do you mean," I said to him. "We cut off about one third of the amount you asked for."

"Yes, I know that," the officer replied, "but when we prepared our estimates we purposely added 40 per cent to the amount we actually needed, because we expected the committee would cut us down about that proportion. So as a matter of fact we got all we expected, and certainly all we wanted."<sup>1</sup>

In those days congressional committees struggled with poorly prepared and inflated estimates; they had few facts upon which to act and their time was limited, so the percentage method of revision was applied. With what results the foregoing story by Senator Smoot indicates. If some new bureau head, uninitiated in the current practice of estimating, should have sent in estimates which accurately represented the needs of his bureau, he would have fared badly under this method since he would have gotten only about two thirds as much as he required. One experience of this kind would undoubtedly have been enough to educate him in the proper technique of estimating under such conditions.

The appropriation or finance committees in state legislatures and even in city councils often followed the same method as the congressional committees. They adjusted the estimated expenditures to the probable income of the government, in so far as this was done at all, by percentage cuts. Of course, this method really encouraged the inflation of the estimates. The greater the cut, the more the inflation; and so it went merrily on.

The first real check to this situation came in making the administration, through its chief executive, responsible for reviewing and revising the estimates in the process of formulating the budget for legislative action. No careful executive would think of applying the method of percentage cuts in revising the estimates for his budget. Indeed, for him to do so would bring his competency, as well as his methods, into question.

The second method depends upon a careful study of the probable needs of the various spending agencies as a basis for the revision of the estimates. This study is usually made by the staff agency under the direction of the budget making authority. It is assumed that the estimates when filed represent the independent judgment

<sup>1</sup>Reed Smoot, "Reforms in the Federal Government," *Proceedings of the Academy of Political Science*, July 1921, p. 105.



and the unrestrained demands of those who prepare them. They may, or they may not, be inflated; this fact is ascertained through a study of the various items which they contain. Whatever action is taken in revising the estimates depends largely upon the findings of the investigating staff as to the needs of the several spending agencies. Of course, the necessity for balancing the budget when a limited income is anticipated is also an important factor in the revision of the estimates. Even desirable requests may then be denied. The actual revision under this method is done by the budget making authority, either directly or by its staff agency. Usually the estimates are revised by items, the amount allowed in the case of each item being indicated; but sometimes they are revised merely by group totals, no entries being made to show just what items have been changed. In the latter case the requests of the spending agencies as well as the revisions of the budget making authority should be printed in the budget, otherwise the details making up the totals will be lacking. In the former case the requests of the spending agencies may be dropped in printing the budget, and yet the information would be complete as to details.<sup>1</sup> But the manner of expressing the revised amounts, whether by items or by totals, is not the prime consideration in this connection. We are here concerned with the method of revision. In actual practice, this second method is followed by the budget making authorities of a large majority of the state and city governments in revising the estimates.

According to the third method of revising the estimates, the budget making authority or its staff agency reviews the estimates and then fixes the maximum amounts which the spending agencies are not to exceed. Thereupon the spending agencies are asked to revise their original estimates, bringing them within these amounts. This may be accomplished by the submission of two sets of estimates, preliminary and revised, or by the addition of a column on the estimate forms for the revised figures by the spending agencies. While the national government provides for two sets of estimates, the additional column on the estimate forms seems more practical for state and local governments. The same careful study of the estimates is made under this method as under the preceding method; the essential difference is that the detailed revision of the estimates is made by the spending officers rather than by the budget making authority or its staff agency. The main argument in favor of the spending officers performing this task is that their cuts will be made where they least interfere with the administrative work. This, in

<sup>1</sup> See below, pp. 361-363.

general, is perhaps true; however, the scheme presupposes a certain rigidity of budgetary items which does not exist where a work program and allotments are used in the execution of the budget.<sup>1</sup> Should the spending officers wish to make additional requests beyond the maximum amounts which have been fixed by the budget making authority, they are usually permitted to submit what are sometimes called "supplemental estimates," setting forth these requests arranged in the order of their importance or urgency. If funds are estimated to be available when the budget is being cast into final form, the budget making authority may then allow the more important of the additional requests.

Both the second and the third methods of revising the estimates are about equally satisfactory from the standpoint of the executive as the budget maker. It depends largely upon the budgetary procedure as to which one can be most advantageously used in a particular governmental unit. It must be borne in mind, however, that these methods apply only to the revision of expenditure estimates. In revising the revenue estimates which are not prepared under his immediate direction, the budget maker generally uses a method that resembles very closely the second method discussed above, namely, that of revision based upon a careful study of probable receipts.

**Long Time Financial Planning as an Aid to Budgeting.**—It is in the review and revision of the estimates that long time financial planning proves especially helpful to the budget maker. As we have already pointed out in the conclusion of Chapter VI, a farsighted financial policy cannot be formulated without a look ahead for five or ten years, particularly in the matter of public improvements. It is not enough merely to plan the requirements of government twelve or twenty-four months ahead; every experienced budget maker will doubtless concede this. Only the long time financial program offers the means for getting that glimpse into the future which is so vital in the making of every sound budget plan.

Because of the importance of long time financial planning in connection with annual or biennial budgeting, we are going to digress at this point in order to summarize the procedure for formulating a financial program extending over several years.<sup>2</sup>

In nearly every city where a long time financial program has been prepared up to this time, a special committee or agency has been

<sup>1</sup> See below, p. 458.

<sup>2</sup> This procedure, as applied to city governments, has already been discussed at some length by C. E. Rightor of the Detroit Bureau of Governmental Research. See Rightor's *The Preparation of a Long Term Financial Program*, publication No. 5, Municipal Administration Service, 1927, pp. 16ff.

constituted for this purpose. The general opinion seems to be that a program formulated in this way carries greater weight than one prepared by the regular city authorities. However, there is no good reason why the budget making authority with its staff agency should not be able to produce a satisfactory financial program. It may be necessary to add temporarily to the budget staff agency a few specialists in engineering and city planning, but this can usually be done. Private agencies, such as governmental research organizations, may also be engaged to study special phases of the problem and report to the budget making authority.

The actual procedure for assembling, reviewing and revising the data for the formulation of the long time financial program does not differ very materially from that already outlined for the preparation of the budget. Estimates for the program are prepared by the departments and agencies of the government in much the same way that they are for the budget. Special emphasis is placed upon the estimates for improvements, the costs of these being shown by units or by projects. If the program is to cover, for example, a period of ten years, the improvements are distributed over this period according to the necessity for them. The costs are indicated opposite the improvements in the years in which each one is to be acquired or constructed. In addition to the properties which each department or agency of the government may desire, there are usually certain general projects which the governmental authorities may wish to undertake. These projects should also be estimated by the proper officials and included with the departmental requests. Aside from the estimates for the acquisition of properties, each department or agency should forecast its expenditures for current purposes over the period covered by the financial program. This forecast does not need to be itemized to the same extent as the budget estimates; it can be largely by totals and yet serve the purpose. It is important to have the approximate current expenditures (including debt service), particularly in local governments, so as to determine the amount of taxes and other revenues that will be available each year for financing improvements. This, in brief, is the general character of the expenditure data required for a long time financial program.

Now, let us turn for a moment to the income data for the long time financial program. For local governments, these data automatically fall into four groups: (1) revenues from the general property tax, (2) departmental or miscellaneous revenues, (3) special assessments, and (4) borrowings. The estimates of revenues from the general property tax are usually arrived at by forecasting

the aggregate assessed valuation for each of the years covered by the financial program and multiplying this amount by the current, or some other, tax rate which it is assumed will not be burdensome on the property owners. Of course, the tax rate may be varied according to the demands of the financial program, since the general property tax is the flexible source of revenue in most local governments. The departmental or miscellaneous revenues, including receipts from publicly owned utilities, can be estimated for a period of years by much the same methods as they are estimated for a single year or for a biennium.<sup>1</sup> Most of these revenues, however, go to finance current expenditures except in the case of utilities, when they may be made to pay in addition thereto the cost of extensions and additional properties. The extent to which special assessments may be used for the purpose of financing a long time program is usually determined by the nature of the improvements and by local legislation and conditions. It is important to provide that these assessments, wherever used, are to be equitably spread and that the areas upon which they are to be imposed shall not overlap in such a way as to place excessive and burdensome charges on some property owners. Borrowings are often the major source of income from which improvements are financed. For this reason, the issuance of long term bonds constitutes an important part of the financial program. Debt limits and other legal provisions must be taken into consideration in making the estimates. The period during which the bonds are to be retired is also a matter which must not be overlooked. It may, and usually does, extend very much beyond the period covered by the program.

The review of the estimates for the long time financial program is conducted in very much the same manner as in the case of those for the budget. Staff investigation of all the estimates, both of expenditures and income, is essential to a coördinated program. Conferences should be held not only with administrative officers but also with private agencies and groups which are interested in certain developments undertaken by the government. The revision of the estimates for a long term program involves at least one problem which is different from those entering into the revision of the budget estimates, that is, the determination of the relative urgency of the improvement projects. It is not so much a matter of reducing the estimates as it is of shifting the projects around so that they will be completed in time to meet the growing needs of the different governmental agencies and yet not overrun the estimated

<sup>1</sup> See above, pp. 317-320.



means of financing them. To assist the budget making authority in this arrangement a Massachusetts law provides that the various state agencies in filing their budget estimates shall forecast their annual expenditures for improvements over a period of years, classifying them under three heads, namely, "necessary," "desirable," or "contingent." It is understood that the improvements in the first class should be provided in the period specified, that those in the second class may be postponed if they cannot be readily financed, and that those in the third class are dependent upon other developments which cannot be definitely predetermined.

Having arranged the improvement projects in the order of their importance and urgency, the next problem is to ascertain if the total costs for each year of the program can be financed by the income which is estimated to be available for that year. In other words, the balancing is done not for the entire period covered by the program, but for each budget or fiscal year included in the program. What it really amounts to is sketching out a number of annual budgets in advance, particular emphasis being placed on the acquisition of properties. The program may be quite comprehensive, as in the case of local governments where it is advisable to include all expenditures, both current and capital, and all means of financing, or it may be limited, as in the case of the national and state governments, merely including construction projects of a given type. In the latter case no attempt would be made to balance the entire outgo and income of the government for each of the years covered by the program; this would be done only in the annual or biennial budget.

When the financial program has been completed, it should be printed or otherwise made available for the information of the citizens and taxpayers. It should be considered, modified if necessary, and formally adopted through a resolution or otherwise by the legislative body of the governmental unit. Of course, the program cannot be made absolutely binding in all its details, but it must be subject to whatever modifications may appear to be necessary when the successive periodic budgets that fall within the term of the program are formulated. However, if the program is carefully prepared, it will not need to be modified except when unforeseen circumstances or unusual conditions arise.

Finally, long time financial planning fails to achieve its purpose if it is not tied into the annual or biennial budget. Each time the budget is prepared that part of the program falling within the budget period should be definitely made a part of the budgetary plan. It is

in this way that the long time program helps to determine the general fiscal policy of the governmental unit and thus aids in the formulation of the budget.<sup>1</sup> At the time of preparing each budget, the financial program should be extended so as to keep it the same number of years ahead of the budget period. Additional estimates can be prepared for this purpose at the time the budget estimates are made up.<sup>2</sup> Modifications may also be made in the program for the intervening years, if changing conditions seem to warrant them. The program, as extended and modified, should be carried in Part II of the budget document; at least, a summary of it should be shown.

<sup>1</sup> See the next chapter.

<sup>2</sup> In fact, it is possible in a way to combine the two, as is now being done in Cincinnati. See above, pp. 240-241.

## CHAPTER XII

### FRAMING THE BUDGET DOCUMENT

WE NOW come to the final steps in the formulation of the budget. These include the setting up of a tentative budget, the holding of public hearings on the budgetary proposals, and the framing of the budget document for submission to the legislative body. Closely related to these steps are such matters as the publication of the budget document, the transmittal of it to the legislative body, and the need for giving wide publicity to the budget, which will also receive some consideration in this chapter.

**The Tentative Budget.**—In the process of review and revision, the estimates are brought together or consolidated in an orderly manner so that they may be easily summarized. It is from this consolidation that the tentative budget is prepared. This budget serves as a sort of trial balance in arriving at the final figures. Its summary statements serve as work sheets, the items and amounts being subject to numerous changes as revision goes on until at length a balanced relation is reached in the finished budget.

Aside from serving as a vehicle in making up the final budget document, the tentative budget is necessary where public hearings are held by the budget making authority. There can be no point to such hearings unless a tentative budget plan, at least in summary form, has been printed or otherwise made available for public examination. Citizens and taxpayers cannot be expected to appear at open meetings when no tentative plan has been announced by the budget maker; with nothing to express an opinion upon, there can be no incentive, other than curiosity, for them to assemble. To hold public hearings on the unrevised estimates, as is often done in state and city governments, is practically useless. Usually those who appear at such hearings are interested, either directly or indirectly, in making out a case in support of the estimates. Intelligent and informative criticisms of proposed expenditures or suggestions for modifying the estimates are rarely, if ever, made under these circumstances. Furthermore, the demands which the income side of the budget make upon the taxpayers are generally lost sight of; yet, in many cases, these are even more important than the expenditures.

While the budget making authority in many state and local governments is required to hold public hearings in the process of formulating the budget, it is seldom that a tentative budget is provided for use at these hearings. An example, however, of a local government requiring a so-called tentative budget to be set up prior to public hearings is New York City. In this city the board of estimate and apportionment, which is the budget making authority, reviews and revises the expenditure estimates and prints them as a tentative budget which is made available to the public by October 10 of each year. During the preceding month the departmental estimates are printed in *The City Record* in unrevised form. This printing, however, is largely useless from the standpoint of public information. The tentative budget shows the expenditure estimates, which have already appeared in *The City Record*, with an additional column carrying the revised amounts allowed by the board of estimate and apportionment. Since, however, it does not show the anticipated income of the city government in relation to the proposed expenditures, it is not really a tentative budget. Ten days are allowed for public hearings on this so-called budget by the board of estimate and apportionment. During this period the amounts tentatively allowed may be revised either upward or downward; usually they are revised upward. On October 20, the document is again printed. This time it is called the "proposed budget," since the board of estimate and apportionment inserts a column of proposed allowances alongside the column of tentative allowances. The total of the proposed allowances fixes the maximum expenditures which may be authorized in the budget, as nothing can legally be added thereafter. The board of estimate and apportionment must take final action on the proposed budget before November 1. Usually some reduction is made in the proposed allowances during this period, particularly if it appears that the tax rate required by the current budget will have to be increased substantially in order to meet the anticipated expenditures. The proposed budget, however, does not show the city's income. The same thing is true of the budget as finally adopted by the board of estimate and apportionment; it is nothing more than a highly itemized appropriation ordinance with comparative figures on current and past expenditures.

It is not necessary in preparing a tentative budget that the information relative to expenditures and income should be presented in great detail. The itemized estimates which are printed in the final



budget may be summarized by character groups or object classes.<sup>1</sup> The important thing is to show the total proposed expenditures in relation to the total anticipated income of the government. Any increases in expenditures should be enumerated by spending agencies. Proposed changes in taxes or other revenues should also be indicated. If bonds are to be issued, there should be some explanation of the purpose for which the funds are to be used. In short, the financial picture as presented in the tentative budget should set forth essentially the information contained in the general summary and supporting schedules of the final budget.

**Public Hearings by the Budget Making Authority.**—The holding of public hearings by the budget making authority during the preparation of the budget document is more the exception than the rule in American practice. The President is not required to hold such hearings on the national budget in the course of its preparation. The same thing is true in a majority of the state and local governments—the budget maker does not have to provide for public hearings. Only about a half dozen states have legal provisions making it compulsory on the governor, or other budget making authority, to have public hearings in preparing the budget. About a dozen additional states make public hearings optional at this stage; the budget maker may hold them at his discretion. The budgetary provisions of a few of the larger cities require the budget making authority to have public hearings at some time during the formulation of the budget.

In many cases where public hearings are required, the budget making authority does not provide a tentative budget for informational purposes. The hearings, as we have indicated above, are held on the unrevised estimates of the spending agencies. The writer recalls having been present at such hearings conducted a few years ago by the governors of Maryland and of New Jersey. A period of fifteen minutes to an hour was given to the consideration of each spending agency's estimates, which in nearly every instance was inadequate for a thorough examination. The heads or other representatives of the spending agencies were present and went over the estimates with the governor. One or two newspaper reporters were usually present, but aside from these the public was not represented, although the hearings were scheduled in advance and notice given in the newspapers. The citizens, if they paid any attention at all

<sup>1</sup> There should, of course, be more detail than just the totals to each organization unit; this is insufficient for critical examination.

to the matter, were apparently satisfied to read what the newspapers reported as happening at these hearings.

This experience would seem to indicate that public hearings at this stage in budgeting practically fail, so far as state governments are concerned, to attain the purpose for which they are intended. Perhaps if the budget maker prepared a tentative budget and placed the emphasis on it rather than on the departmental estimates more interest on the part of the public might be stirred up, but even that is doubtful. For the larger states, there are geographical reasons against attendance by citizens at these meetings. Distance and traveling expenses certainly stand in the way. In the case of the federal government, these things make it many times more difficult to have public attendance at any hearings which might be held in the course of preparing the national budget; hence it seems just as well that public hearings are not even attempted. Under such difficulties, one cannot ascribe the apparent public apathy to these hearings, as has been done on some occasions, to the general perversity of the "political animal."

From the geographical point of view, it is, of course, quite feasible to hold public hearings in the preparation of the budgets for city and other local governments. In many instances, however, such hearings contribute very little, if anything, at this stage in the budgetary procedure. This is particularly true in the case of the strong mayor and the manager forms of city government. It is understood that the mayor or the manager, if he is an alert administrator, will seek all the advice obtainable in preparing his budget so as to fortify himself against criticism when this document is discussed by the council. But this does not mean that he must hold public hearings; there are other and more satisfactory methods of obtaining the advice and suggestions which he desires. Under these forms of city government, the council is the proper agency to conduct public hearings on the budget. Besides, its members are the authorized representatives of the city electorate. However, in those forms of city government where the budget making authority not only prepares but practically enacts the budget, public hearings may be held to an advantage during the formulation of the budget plan. This is true, for example, in New York City where the board of estimate and apportionment is the budget making authority and at the same time the upper house of the municipal assembly. Since the budget is practically fixed when it leaves the hands of this body, public hearings to be at all effective must be held during the period when the budget is being formulated. Likewise in commission governed

cities, public hearings may be held to better advantage while the commission is preparing the budget than after it sits as a legislative body to vote the budget bills.

Except in the cases just noted, public hearings conducted by the budget making authority may be regarded as being practically worthless. For such hearings to be at all effective, in the opinion of the writer, they must be held in connection with the legislative consideration of the budget.<sup>1</sup> Only in the legislative body, it seems, is there any likelihood of critical and open examination of the budget, and then not by the public, as such, but by the public's delegated representatives in that body. This is true in English budgetary practice.

**Should the Original Requests Be Published?**—The original requests made by the spending agencies are sometimes eliminated and only the allowances of the budget making authority are printed in the budget document. This is the practice in the formulation of the national budget. The President has taken the position that under the provisions of the national budget law he alone should make recommendations to Congress regarding expenditure needs and that the administrative officers should not question these recommendations before the committees of Congress. At the eighth regular meeting of the "Business Organization of the Government," held on January 26, 1925, President Coolidge said:

At our last meeting I had occasion to call attention to the fact that under the law the only lawful estimates are those which the Chief Executive transmits to Congress. My reason for then calling the matter to your attention was that in a few instances officials of the executive branch of the government advocated before the committees of Congress the appropriation of amounts in excess of those recommended in the executive estimates. Both the letter and the spirit of the budget and accounting act prohibit such action. There is nothing, however, in the law, nor any intent on the part of the Chief Executive, to preclude the officials who appear before the committees of Congress from giving the committees full and complete information on any item contained in the estimates. There is a marked distinction between advocating an increase in the executive estimates and furnishing Congress with full and complete information concerning them. The former is prohibited by law, as it should be. The latter is a fulfillment of the right of Congress which has never been questioned nor should ever be questioned.

Pursuant to this interpretation of the national budget law, Congress is given no information in the printed budget as to the amounts originally requested by the various spending offices in submitting their estimates to the Bureau of the Budget. It is argued that to

<sup>1</sup> See below, pp. 392-393.

do so would not only weaken the responsibility of the President in the formulation of the budget, but would also raise issues between the President and his administrative officers and unduly increase the work of the congressional committees on appropriations in deciding these issues.<sup>1</sup>

In most of the state and local governments, however, the practice is to show in the printed budget the requests made by the spending agencies as well as the recommendations of the budget making authority. This is done even in the Maryland state budget where the recommendations of the governor are practically final so far as the upper limit of appropriation is concerned. A notable exception, however, is the Illinois state budget which contains only the estimates as approved by the governor. This practice was initiated by Governor Lowden in preparing the budget for submission to the 1919 legislature. He considered all estimates received up to the time the budget was formulated as preliminary rather than official. His allowances were the only official figures, being arrived at after a survey of the state's financial requirements and being agreed to by the administrative officers under his direction. However, they were not stated in as great detail as the original estimates, the idea perhaps being to control in some measure the itemization of the appropriation bills as framed by the legislative committees. When the budget was transmitted to the legislature, the members asked for more detailed information; they desired, in short, the detailed estimates of the spending agencies. Thereupon the department of finance issued a supplement to the budget, called the "book of estimates," which contained the original estimates in complete form. Since 1919, however, the budget document has been printed without the original estimates of the spending agencies and no supplementary document containing these estimates has been provided.

Governor Pinchot of Pennsylvania, in preparing his budget for the 1925 legislature, also omitted the detailed estimates of the departments. He showed only the executive recommendations and these were largely in lump sum amounts, according as they were to be appropriated. In this respect, his budget presented much less detailed information concerning the future requirements than did Governor Lowden's budget. The only detailed information contained in the Pennsylvania budget related to the past and current expenditures of the various departments and agencies. There was,

<sup>1</sup> This is the opinion of W. F. Willoughby in his book *The National Budget System*, pp. 52-53. Mr. Willoughby claims that this procedure also tends to keep down the appropriations.



however, some running comment in connection with the estimates of each spending agency which explained to some extent the governor's lump sum recommendations. But without access to the detailed figures constituting these recommendations, the legislative committees considering the budget would have been left largely in the dark. The itemization as printed in the tabular parts of the budget was apparently too meager to furnish complete and comprehensive information. In the budget prepared subsequently to Governor Pinchot's budget, the tabular matter alone remains, the running comment on the governor's expenditure proposals having been omitted. This later budget was certainly unsatisfactory from the standpoint of adequate budgetary information on the executive proposals.

So long as the executive recommendations are made in the same detail as the original requests, as is done in the case of the national budget, there is no particular advantage from the standpoint of information in printing these requests. This, of course, assumes that the executive proposals are presented in the form of a carefully balanced plan and that they have real weight in determining the final expenditure authorizations, not being merely advisory to the legislative body.

**Setting Up and Publishing the Budget Document.**—After the consolidated estimates of expenditures and of income have been revised and the final allowances of the budget maker have been inserted on the expenditure estimates, then comes the work of setting up the financial data in the budget document. This document has been described at length in Chapter IV, both as to contents and arrangement of information.

But even with the aid of a detailed description, the task of setting up the budget document is not a simple one. If a tentative budget has been prepared when this stage is reached, it may be used as a working basis in preparing the final budget document. Before proceeding to the final document, it is of course necessary to have the revised allowances of the budget maker on all expenditure estimates. Any change which is later made in these allowances will, in practically every case, necessitate a readjustment in the figures of the general budget summary and the supporting schedules. This adds to the work of compiling the budget. Likewise, it is necessary to have the final figures of the budget maker on the revenue estimates and other sources of income. Assuming that these expenditures and income data have been determined, the actual make-up of the budget document can proceed in an uninterrupted manner.

The task of setting up the budget document can be performed most satisfactorily by the budget staff agency. It is of a more or less routine character, once the form of the document has been decided. However, it is desirable that a certain sequence be followed in the preparation of the different parts of the budget. The expenditure estimates are first drawn together, arranged according to the order in which they are to appear in Part II of the budget document, and a summary by organization units made of them. This summary which is placed in front of the estimates in Part II, is in the nature of a recapitulation of expenditures.<sup>1</sup> The revenue estimates are then brought together and a summary of them made according to sources. This summary likewise precedes the revenue estimates, all of which should follow the expenditure estimates in Part II of the budget document. Any supporting data on the financial condition of the government are arranged at the end of Part II and properly related to the estimates. By this procedure, Part II of the budget document is the first to take definite form.

Part I is prepared from the information contained in Part II. The supporting schedules are first built up and then the general budget summary is made. The latter is in reality the master statement of the budget, mirroring in its items all the budgetary proposals. For this reason, it is the last to be cast up from the budgetary data. With the summary statements and other information before him, the budget maker then prepares his budget message. This message is placed in the front of the budget document and completes Part I.

If the budget includes any publicly owned utilities or enterprises which are operated on a self-supporting basis, the financial requirements of each of these may be set up as an annexed budget to the general budget.<sup>2</sup> In that event, each annexed budget is formulated at the time Part II is being prepared; a summary of it is presented in Part I, and any surplus or deficit is carried into the general budget summary. By the latter step, it is definitely tied into the general budget so that the financial plan is complete.

The last part of the budget document to take shape is Part III, containing the budget bills. These bills are drafted after the expenditure allowances and the income figures have been determined. While it is desirable that they should be drafted by the budget staff agency and included in the budget document, that is seldom the case in actual practice, although there is now a marked tendency in that direction. As a general rule, the budget document goes to the legis-

<sup>1</sup> See above, p. 90.

<sup>2</sup> See above, pp. 104-107.

lative body without Part III, the budget bills being prepared by legislative committees.

The setting up of the budget for a government of any size requires certain mechanical office equipment, if the work is to be done accurately and expeditiously. The minimum requirements of this character are a wide carriage typewriter and a standard adding machine. The capacity of the adding machine should be ample to record at least as many digits as there are in the grand total figure of the budget. A calculating machine can also be used to advantage, although it is not absolutely necessary since most of the calculations in making up the budget are either additions or subtractions. A tabulating machine of the Hollerith or the Powers type is a valuable adjunct in making expenditure analyses according to the various kinds of classification, particularly the object classification. These analyses, however, should be made by the central accounting office at frequent intervals during the expenditure period, cumulative totals being made at the end of the period. In doing so, this office may use to advantage the tabulating machine method.<sup>1</sup>

Unless the government is very small, it is desirable to print the budget document before it is submitted to the legislative body. Part I, at least, should be printed even though the detailed information in Part II and the budget bills in Part III are omitted. This will enable those interested in the budget to obtain a bird's-eye view of the financial plan. Several state and city governments have legal provisions requiring the budget to be published in its entirety.

The copy for the printer should be carefully checked in order to reduce the probability of errors to a minimum. An edited set of the estimates will furnish most of the copy for Part II of the budget, the recapitulation sheet, in the case of each organization unit, being put ahead of the details. It is unnecessary to transfer the estimates to other sheets, as is sometimes done. This merely adds to the labor of getting the budget together and does not facilitate the work of the printer. The estimates should be in such shape that the printer can set type directly from them.

Although very little attention is usually given to the matter, the budget document can, and ought to, be set up in an attractive format. That it can be made attractive may seem farfetched to some, but this is entirely possible if a little thought is given to its general make-up. The sizes of budget documents vary widely; in fact, they range all the way from ordinary octavo, 6 x 9 inches, to elephant folio, 14 x 20 inches. A satisfactory budget document can be gotten out in the

<sup>1</sup> See below, p. 530.

octavo size, as is apparent from an examination of the state budget of Massachusetts or the city budget of Rochester, New York. By using eight or ten point type, the octavo pages are large enough to present the tabular matter contained on the estimates without overcrowding it.<sup>1</sup> The national budget, printed in quarto (9 x 12 inches), is very satisfactory from the standpoint of size. The type space on the pages seems to be adequate to present all the tabular matter necessary for the support of the budgetary plan. Those state and local governments which publish larger sized budgets (and there are a number of them) ought to consider reducing these documents to the page size of the national budget. Their budgets would then be easier to handle and perhaps less expensive to publish. The style of type used in printing the budget is also important. It should be selected so that bold face and italic fonts of the same size type are available for the tabular matter. By the proper use of these fonts the budgetary information can be made to stand out in such a way that it may be easily followed as to classes, subclasses, totals, and subtotals.

The proof sheets of the budget require careful reading. Every figure and every total should be checked. In checking totals, the ordinary method of reading the proof back to the original copy may be improved upon by the use of the adding machine. An operator merely takes a copy of the proof without regard to the original copy and runs over the items composing the various totals with the adding machine. In this way any errors will at once become apparent, even transposed digits which are the most difficult to catch by comparing copy. Besides, the use of the adding machine on the proof is equivalent to checking the original copy a second time, thus insuring greater accuracy in the figures.

The binding of the budget document deserves mention in this connection. For purposes of general distribution, cloth binding is of course too expensive. Nearly all budgets are therefore bound in paper covers. Sometimes the cover stock is of the same weight as the inside paper, but usually it is heavier and of a special grade. Frequently a small number of copies are bound in cloth for official use. This is the practice in the case of the national budget. A limited part of the edition is bound in buckram cloth; the remainder is bound in manila paper covers. The first part of the budget, consisting of the budget message and the summary and supporting statements, is printed in greater quantities and receives a much larger circulation than the entire document. This results in a con-

<sup>1</sup> See above, p. 101, for the reproduction of a page from the Rochester budget.



siderable saving in printing costs. If the budget documents of state and local governments are set up in parts as we have already suggested, it is perfectly feasible, in fact desirable, to print the first part separately for general distribution.

### **Transmitting the Budget Document to the Legislative Body.**

—As soon as the budget document is printed, it is usually transmitted to the legislative body. This is the duty of the budget making authority; it is generally required by specific legal provisions naming the date of transmittal. The national budget law requires the President to submit the budget to Congress on the first day of each regular session (the first Monday in December of each year); however, in practice, it is usually transmitted on the third day of the session, the President's general message preceding it. In the several states the budget maker is required to transmit the budget to the legislature on various dates, generally always within the first month of the session. Rarely is the state budget sent to the legislature on the first day of the session. The more common dates for transmitting it are the fifth, tenth, fifteenth, twentieth, and thirtieth days of the legislative session.

In some states where the governor is the budget maker, provision is made whereby a newly elected governor has a longer period for transmitting the budget to the legislature than a governor who has been in office for a year. Maryland allows the newly elected governor thirty days after his inauguration to submit the budget, otherwise it must be transmitted within twenty days after the legislature convenes. New York allows the newly elected governor until February 1, the regular date for the transmittal of the budget being January 15 (the legislature convenes on the first Wednesday in January). The purpose of these provisions is, of course, to give the newly elected governor time to prepare his financial plan after he is inaugurated. If he has served as governor during the preceding term, he does not need the additional time; if he has not held the office before, he needs more than a month to prepare his budgetary plan. In the latter case, he ought to start to work on the budget immediately after his election rather than wait until after he is inaugurated. In some states provision has been made whereby the governor elect may take part in the budgetary procedure prior to his inauguration, the idea being to enable him to get acquainted with the condition of the state's finances and the general fiscal requirements. The California budget amendment, for example, confers upon the governor elect the power to gather the information required in the preparation of his budget. In this case, the time limit for the

submission of the budget to the legislature is the same for the newly elected governor as for one already in office, namely within the first thirty days of the session.

Another solution of this problem has been suggested for those states having biennial sessions of the legislature, namely, that the governor be inaugurated between the legislative sessions rather than at the beginning of such sessions. Although it is customary for the governor to take office at the time the legislature convenes or soon thereafter, there is no convincing reason for this practice even in those states which have annual legislative sessions. The governor might take office on the first of December, a month or so before the legislature convened. In fact, this has been proposed in the "Model State Constitution," published by the National Municipal League. According to this model constitution, the governor is to be inaugurated on the first Monday in December and the legislature is to meet on the first Monday in February. This provision allows sufficient time—two months—for the incoming governor to formulate the budget for submission to the legislature at the beginning of the session or not more than one week thereafter. Besides, it permits the legislative consideration of the budget to extend over the entire session rather than one half or two thirds of it, as is frequently the case when the budget is submitted to the legislature a month after the session begins.

In two states, the budget making authority is required to complete the budget in time to furnish copies of it to the members of the legislature ten or fifteen days before the opening of the session. The evident purpose of this procedure is to enable the legislators to study the budget before they meet. Whether or not they do it more thoroughly before they meet than afterwards is questionable. At the same time the budget making authority must naturally speed up the preparation of the budget. In the case of a new administration coming into office, it can have very little influence on the budgetary plan which must be submitted within about a month after the general election. Where the governor is the budget maker, certainly the incoming rather than the outgoing governor should be the one to submit the budget to the legislature. This is the reason that some states, as noted above, have allowed the newly elected governor more time to formulate the budget and place it before the legislature. Any arrangement which precludes this, such as the requirement for the completion of the budget by the middle of December, is undesirable.

In a number of cities under the mayor council form of government

the budget is prepared by the outgoing administration, and in some cases even passed by the council before the incoming administration takes office. This arrangement, of course, does not allow the newly elected mayor to have a hand in the preparation of the budget for the first year of his administration except when he happens to succeed himself in office. The budget making period should be so arranged in these cases as to permit the new administration to formulate the budget after it comes into office. This can usually be done by making some slight charter changes. If the mayor is elected in the early part of November and the fiscal year of the city begins on January 1, as is the case in a large number of cities, it is usually impossible for him to take part in the budgetary procedure between the time of his election and the opening of the fiscal year. The budget, if it is to be enacted and effective when the fiscal year begins, must be made up by the outgoing administration. Of course, if the budget is not passed until some time after the fiscal year begins, it is possible for the newly elected mayor to prepare it after he takes office. But to delay the adoption of the budget in this way is undesirable, as we have stated in our previous discussion.<sup>1</sup> It is hardly possible for the mayor to prepare the budget and for the council to enact it in the space of two months. The election date must, therefore, be moved backward or the fiscal year ahead. In those cities which start their fiscal year on July 1, there is, of course, no problem in this respect. The mayor can be elected in November, or even later, and still have plenty of time to prepare the budget after he takes office so that the council may pass it before the beginning of the fiscal year. Since the council usually meets at least once or twice a month during the year, the problem of adjusting the date of submitting the budget to an annual or biennial session, as in the case of the state legislature, does not exist.

In the commission form of city government the financial calendar ought to be so arranged that the incoming rather than the outgoing commission would prepare and adopt the budget. The same criticisms and suggestions apply in this case as under the mayor council form already discussed. Likewise, in county and other local governments which have the decentralized form of administration, the budget ought, if possible, to be prepared by the incoming administration.

In the manager form of city government, however, this question is not important, except as it concerns the legislative body. The administration may change at any time, since the manager has no

<sup>1</sup> See above, p. 328.

definite tenure of office as in the case of the mayor. But it is perhaps desirable to arrange the time when the council takes office so that a newly elected council will enact the budget for the forthcoming year.

As we have indicated above, it is desirable in both state and local governments that the budget should be submitted to the legislative body in time to permit action to be taken on it before the beginning of the fiscal period to which it applies. From one to three months, depending upon the size and type of government, is necessary for this purpose. In some governments the time allowed for legislative consideration and action on the budget is too short. We shall discuss this in the next chapter.

**Giving Publicity to the Budget Document.**—A final word may be added with reference to the publicity that should be given to the published budget document. Some states require the budget maker to have a sufficient number of copies of the budget printed to supply not only the members of the legislature but also the newspapers, libraries, and educational institutions of the state, with some extra copies for general distribution. The usual edition for a state budget is about a thousand copies. The copies are distributed at the same time the budget is submitted to the legislature. Sometimes the newspapers receive copies a day or two in advance so as to enable them to have their stories ready for publication on the day the budget goes to the legislative body. Every citizen of the state cannot, of course, be supplied with a copy of the budget. It is enough if a limited number of copies are available for those who request them. The great majority of citizens must depend on newspaper reports for their information relative to the budget plan. In the case of the national budget, few citizens ever see the complete document unless they visit a public library. They must rely almost entirely upon the newspapers for an understanding of the national financial plan. The situation, however, is somewhat different in the case of local budgets, since geographical area is not so great a factor. The local budget document may be more or less widely circulated by being posted at convenient points for citizens to examine. Furthermore, the problems of local governments are so close to the citizens that greater interest usually attaches to the budget of these governments than to those of the national or state governments. This factor undoubtedly assists in giving publicity to local budgets.



## CHAPTER XIII

### LEGISLATIVE CONSIDERATION AND ACTION ON THE BUDGET

A DEFINITE stage of the budget making procedure is completed when the budget maker presents his financial proposals to the legislative body. Then follows the second and last stage of this procedure, namely, the adoption of the budget. No governmental budget may be finally adopted without formal consideration and definite action by the legislative body. This does not mean, however, that the procedure of this second stage must be exclusively legislative, the executive or the administrative officers having no part in it. As a matter of fact, certain coöperation is demanded between the executive, as the budget making authority, and the legislative body. What form, in the light of our experience, this coöperation should take under our system of government we shall attempt to outline in the course of this chapter.

No matter with what broad knowledge and penetrating vision the budget may have been formulated, it will fail to accomplish its purpose as a financial plan for the government unless it receives proper treatment at the hands of the legislative body. This body may handle the budget with understanding and dispatch, or dispose of it in a careless and dilatory manner. The legislative method depends upon several factors, the most important of which are discussed in the subsequent sections of this chapter. The first one to be considered is the organization of the legislative body in our national, state and local governments as it relates to budgeting.

**Organization of the Legislative Body in Relation to Budgeting.**—The legislative bodies of our national and state governments are bicameral, consisting of two houses, an upper and a lower, the lower being the larger of the two from the standpoint of members. Our local governments, however, practically all have unicameral legislative bodies. This is true without exception of the county governments and very largely so of the city governments.

Formerly, many of our city governments had bicameral councils. It is only recently that some of our larger cities, for example, Philadelphia, Baltimore, and Kansas City (Missouri), have abolished their two-chambered councils and adopted the unicameral system.

At the present time only a few of the smaller cities, principally in the New England states, still retain the bicameral system. With the possible exception of New York City, all recent experience points to a simplification of the legislative machinery of city governments through the uniform adoption of the single-house council. In New York City, however, a "municipal assembly" has been recently constituted under the home rule of 1924, the board of estimate and apportionment being made the upper house and the board of aldermen the lower house.<sup>1</sup> The widespread adoption of the manager form of city government has aided in establishing the unicameral council. Prior to the beginning of the manager movement, the trend had already been started in this direction by the commission form of city government, which was very popular more than a decade ago. There seems to be no question as to the superiority of the single-chambered council over the older form. Responsibility is more clearly fixed, legislative business is more easily expedited, and the chief executive or administrative officer of the city government is able to work more closely with the council, especially in the consideration and adoption of the budget.

While the legislatures of our state governments all have the same double-chambered organization as their greater counterpart, the Congress of the United States, the arguments for this arrangement do not seem to be as valid in one case as in the other. The two houses of Congress were designed primarily so that the representation of the several states in the upper house would be equal and in the lower house on the basis of population. No such necessity exists in the case of the state legislatures. In these bodies representation on the basis of population seems to be all that is required, assuming that the interests of the urban and rural sections are not antagonistic to each other. This would not necessitate the segregation of the members into two houses. Furthermore, smaller legislative bodies in some states would undoubtedly be more effective. The size of existing state legislatures, when viewed from the standpoint of the population which the members represent, affords some rather ridiculous comparisons. The Nevada legislature, with 54 members in its two houses, has about the largest representation in proportion to population of any state in the Union, there being one member to every 1,433 people in the state on the basis of the 1920 census. If the New York legislature had a membership which maintained the same proportion as that of Nevada, it would have

<sup>1</sup> See Joseph McGoldrick, "The Board of Estimate and Apportionment of New York City," supplement to *National Municipal Review*, February, 1929.

over 7,000 members in the two houses instead of the present 201 members.

By the adoption of the unicameral form, it is possible that the size of state legislatures could be greatly reduced, likewise the cost of their operation. Legislative business could be handled more expeditiously, since the deadlocks and friction which often occur between two houses would be eliminated. The dual committee system and the autocratic conference committee, to which we shall refer later, would also be eliminated. It ought to be easy to focus public attention on the work of a small, single house, particularly as it relates to the budget, whereas it is almost impossible for the people to follow the work of the two-chambered legislature with its large number of committees. There would not be the opportunity for "passing the buck" between the houses on bills which the public might approve and the politicians might not want enacted. Responsibility for measures defeated in this way cannot be fixed under the bicameral system. The most important argument for the bicameral system is that one house acts as a check on the other in preventing the passage of hasty and ill-considered legislation. Where careful studies have been made of the work of state legislatures, this argument has not been substantiated. It appears that deliberation and judgment are often lacking in the work of the bicameral legislature where most of the bills, including the budget bills, are passed during the closing days of the session, generally amid much disorder and confusion.

Attempts have already been made in several states to adopt a single-house legislature. Constitutional amendments, providing for such a body, have actually been submitted to popular vote in Arizona, Oklahoma, and Oregon. While these amendments were defeated in each instance, a very large vote was cast in their favor. Other proposals for a unicameral legislature have been made in California, Kansas, Nebraska, Nevada, and Washington. Even the legislators themselves are coming to realize the clumsiness of the bicameral system, and many of them already feel that it has no place in a really effective plan of state government. The advocates of the single-house legislature point to the fact that seven of the nine Canadian provinces, with conditions very much like those that exist in our own states, have unicameral legislative bodies, and that the work of these bodies is apparently very much superior to that of our state legislatures. Perhaps it is only a matter of time until some one of our states will adopt the unicameral system. If this should happen, other states will no doubt be quick to follow,

once the charm of tradition has been broken. But the bicameral system is likely to continue in our state governments for many years to come, so we must reckon with it in this discussion, pointing out the effect that it has on the legislative handling of the budget.

*The Legislative Committee System.*—Every legislative body, whether it be national, state, or local, works to a very large degree through committees composed of members of the body. These committees are more or less permanent. The personnel, of course, changes from time to time, but the committees go on year after year, and for this reason are referred to as *standing* committees. The number of these committees that a legislative body may have varies greatly from state to state or from one local unit to another. Likewise the committee membership may be large or small, depending upon the size of the legislative body. Not only do these committees vary as to number and size, but there is no uniformity even as to the names. The committee that handles the budget, for example, is variously known as the appropriations committee, the finance committee, or the ways and means committee.

In Congress and in nearly all of the state legislatures there are two sets of committees, one for each house. The committees in one house usually carry on their work independently of the committees in the other house, there being little or no coöperation between corresponding committees in the two houses. In a few states, however, the corresponding committees of the two houses either act jointly or are jointly constituted, so that a bill is normally considered only once in committee rather than twice. In the case of the local governments, which practically all have unicameral legislative bodies, there is, of course, only one set of committees. Hence the matter of committee consideration and action on bills is greatly simplified, even more so than in the case of joint committees. This is particularly advantageous in handling a series of bills, like the budget bills, all of which are related. Furthermore, it is desirable that all of the budget bills, at least, should be handled through a single committee, especially in the legislative bodies of state and local governments. In state legislatures, for example, there should be only one joint committee to consider both the expenditure side and the income side of the budget.

Prior to the adoption of the national budget system each house of Congress had no less than eight separate committees which handled appropriation bills. Not only was there no coöperation between the committees of the two houses, but those in the same house acted independently of one another. None of the committees had respon-



sibility for seeing that the proposed expenditures balanced with the anticipated income of the government. More than a dozen appropriation bills were prepared by the committees of the House of Representatives and submitted at different times during the session, sometimes several months apart. This difference in time and the fact that the bills did not follow organization units made it impossible for congressmen to consider at one time the financing of any one department, much less of the whole government. Usually the end of the session came without even the total of the appropriations being known, to say nothing of the relation existing between the appropriations and the prospective income of the government. The revenue proposals were handled by separate committees in the two houses with no official coördination. Frequently the financial bills which were passed by the House were so changed by the Senate as to be practically new bills. This necessitated the use of conference committees in reaching agreements between the two houses, the Senate largely having its own way in these conference committees. Usually the appropriation bills were increased by the Senate, log-rolling being even easier in that body than in the House. If a senator did not get what he wanted, he might, by the exercise of the privilege of unlimited debate, be able to prevent the passage of a bill when near the end of the session. Certainly a few senators could successfully block a bill which they did not approve of by simply filibustering.

On June 1, 1920, a resolution, modifying the rules of the House, was adopted which created a single Committee on Appropriations of thirty-five members to have complete control over all appropriation bills. This resolution was proposed as a necessary adjunct to the budget act and was adopted more than a year before that act became effective, owing to the fact that the first budget bill was vetoed by President Wilson in 1920 and had to be repassed in slightly modified form by the subsequent session of Congress. The Committee on Appropriations functions mainly through ten subcommittees, seven of which consist of five members each, two of six members each, and one of ten members. The majority party in the House has the largest number of members on both the Committee and the subcommittees, the chairman in every case being a representative of this party. The subcommittees are organized according to the general scheme of appropriation bills, the latter following the major departments of the government. At present the arrangement is as follows: (1) Treasury and Post Office departments, (2) District of Columbia, (3) War Department, (4) Department of

Agriculture, (5) Executive Office and independent offices, (6) Department of Interior, (7) Navy Department, (8) State, Justice, Commerce, and Labor departments, and the Judiciary, (9) Legislative Branch, and (10) deficiencies.

The Senate rules were modified on March 6, 1922, to provide for a single Committee on Appropriations consisting of eighteen members. It has control over all appropriation bills in the upper house. It is organized into ten subcommittees similar to the House Committee, each handling one of the major appropriation bills. When considering certain of these bills, the subcommittees of the Senate Committee on Appropriations may have the advice of three members selected from the corresponding general committees of the Senate. This provides a means for some correlation between those committees which work on general legislation and the subcommittees which handle appropriations.

According to the revised rules of both houses of Congress, no appropriation bill can be brought before either body for action except through the two committees on appropriations. These committees cannot report bills containing any general legislation, except where the purpose of this legislation is to reduce expenditures. Although control over appropriations is centered in a single committee in each house, the committees of the two houses still continue to work independently of each other in handling the appropriation bills. This entails duplication of work and often results in differences of opinion which can be settled only by resort to conference committees.

To handle the revenue bills there is a Committee on Ways and Means in the House, consisting of twenty-five members, and a Committee on Finance in the Senate, consisting of seventeen members. These committees also work independently of each other in considering the income side of the budget. There is, however, some coöperation between the Committee on Appropriations and the Committee on Ways and Means of the House in that the chairmen of these committees keep in touch with each other, the purpose being to prevent the budget from being completely thrown out of balance by the expenditure and revenue proposals of the two committees.

A single committee in each house to handle both the expenditure side and the income side of the budget has been proposed on the ground that it would tend to promote the unity of the budget plan. Mr. Willoughby, however, argues in favor of retaining the present arrangement of separate committees. He maintains that the task is too big and the concentration of power and responsibility too great for a single committee. He also asserts that the appropriation bills

are nonpolitical in character while the revenue bills are usually intensely political; for this reason he does not believe it is desirable to combine the handling of these bills in one committee. Nor does he think the committees can work jointly between the two houses so long as we cling to the historical precedence of the lower house in originating fiscal measures and continue to believe in the efficacy of the bicameral system.<sup>1</sup>

Generally speaking, the state legislatures have about the same committee arrangement for handling the budget as the one that now exists in Congress. The budget proposals are usually referred to two or more committees in each house. Not only do these committees work independently of each other, but they do not coöperate with the corresponding committees in the other house. Each committee reports out finance bills and makes recommendations to its particular house with little or no knowledge of what the others are doing. This, however, is not the practice in all states. A few state legislatures have either constituted joint committees or have provided that corresponding committees work jointly, thus insuring some working coöperation between the two houses and avoiding, in a measure, the use of conference committees. Connecticut and Maine, for example, have joint standing committees of the two houses which handle the budgetary proposals. In each case there are two joint committees, one handling the appropriations and the other the revenues. Coördination of the financial plan between the two committees is, however, largely lacking. In a few other states, notably Massachusetts, New Jersey, New York, and Wisconsin, the separate committees of the two houses sit jointly in considering budgetary matters. The budget laws of a few states, for example, Virginia, require the standing committees of the two houses in charge of appropriation bills to act jointly. While there is this coöperation between the committees, in practically every instance the budget plan is split up, the expenditure side going to one joint committee and the income side to another. This arrangement, even under the joint committee system, tends to break down the unity of the budget plan. It, therefore, seems highly desirable that there should be in each state legislature a single joint committee of the two houses which would consider and report upon the entire budget plan. This committee might be known as the budget committee of the legislature. Undoubtedly such a committee would eliminate some of the disadvantages of the bicameral system, which are especially apparent in the consideration of the budget.

<sup>1</sup> See W. F. Willoughby, *Principles of Public Administration*, 1927, pp. 472-4.

The committee system in the local legislative bodies is much simpler than in the state legislatures. This is due to the fact that practically all of these bodies are unicameral. But even so, the budgetary proposals are sometimes parceled out to two or more committees. This means that the proposed expenditures are considered separate and apart from the anticipated revenues. However, in several cities there is only one committee of the council to which the budget is referred for a report. For example, Cincinnati has a committee on finance, consisting of three of the nine council members; Rochester has a committee by the same name, likewise consisting of three of the nine council members. In some cities, the finance committee, or the ways and means committee, consists of all members of the council. This is frequently true in the case of small councils with five or seven members. Such a committee is in effect a committee of the whole. It is a very desirable arrangement from the standpoint of budgetary consideration, since every member of council then has an opportunity to study the budget and form an opinion on its financial proposals.<sup>1</sup>

*Staff Aid to the Legislative Body.*—It is desirable, particularly in the larger governmental units, that the legislative body should have staff assistance in the examination of the budgetary proposals. Otherwise, legislative consideration of the budget is likely to be rather cursory. Most members of legislative bodies, particularly those of state and local governments, do not have the training necessary for a careful study of the budget plan. Some, of course, acquire much valuable information due to their long service. But on the whole, the technical knowledge of legislators is limited, likewise the time that they can devote to an examination of the budget. Budget committees, if their consideration is to be at all thorough, should therefore have the aid of permanent staff agencies.

The national budget act, in creating the office of Comptroller General, contemplated that this office would be used as a staff agency by the congressional committees in their consideration of the budget. It specifically provided that the Comptroller General "shall make such investigations and reports as shall be ordered by either house of Congress or by any committee of either house having jurisdiction over revenue, appropriations, or expenditures." It also provided that assistants from the Comptroller General's office should, when requested, directly serve the congressional committees handling the budget. The committees, however, have not yet availed themselves of these provisions. This might readily be done to their advantage.

<sup>1</sup> See below, pp. 388-392 for a discussion of the committee of the whole.



Since the Comptroller General's office is mainly responsible to Congress, it is proper that it should act as a legislative staff agency in budgetary matters. Such is the practice in England where the Comptroller and Auditor General, who is directly responsible to the House of Commons, serves as its investigator in reviewing the financial transactions. At the same time the English Treasury constitutes a staff agency to the executive, just as the Bureau of the Budget is designed to serve as the President's staff in this country.

Each state legislature should have a staff agency to assist it in the study of the budget. The office of the state auditor may be used for this purpose, provided it is not an integral part of the state administration. Since the state auditor is usually independent of the executive, being elective or, in some instances, appointed directly by the legislature, he is in a favorable position to render this service to the legislature. But rarely does the legislature or its finance committees turn to his office for help in connection with the budget. An exception, however, may be noted in the case of the joint appropriation committee of the New Jersey state legislature, which for several years has had the assistance of Owen W. Kite, deputy state comptroller, in its study of the budget. Mr. Kite is appointed by the state comptroller, who in turn is an appointee of the state legislature.

A number of state legislatures have the assistance of legislative reference bureaus. The work of these agencies, however, is of a general character; it is not specifically concerned with the budget and financial measures.

In a few instances, there is a special staff agency which assists the state legislature or its committees in studying the budget. New York, for example, has such a staff in connection with the senate finance committee and the assembly ways and means committee which act jointly in the consideration of the budget. This staff aids in checking the figures submitted in the governor's budget, which in turn are prepared by the executive budget bureau. It does whatever investigating of the state institutions and departments is necessary to enable the committee members to form an opinion with respect to the governor's budgetary proposals. Instead of the members of the committee "junketing" around the state, as is done in some cases, in an attempt to secure information which will enable them to pass judgment on the executive recommendations, this information is secured by experienced investigators and supplied to the committee in connection with its examination of the estimates.

Where the state budget making authority is of the board type,

representing both the administration and the legislature, it is possible to use the staff which aids in the preparation of the budget as a legislative staff agency. This is the practice in the state of Wisconsin. However, there is this disadvantage: the staff is likely to use the same data which it collected in formulating the budget in an attempt to justify the budgetary proposals before the financial committees. The independent viewpoint which the committees ought to have in studying these proposals is therefore lacking.

But this does not seem to have been the case in Massachusetts. There the senate and house ways and means committees, to which the budget is referred, use the budget bureau of the commission on administration and finance as their staff agency. They rely mainly upon one individual, Carl A. Raymond, who for several years has assisted in the preparation of the governor's budget. The fact that Mr. Raymond has aided in formulating the executive proposals does not seem to detract from the value of his advice to the legislative committees in their action on the budget. Perhaps this is due to personal qualities more than anything else.

Staff assistance to the council in the larger cities is also advantageous in the proper study of the budget. Very few of these cities, however, provide the council with a staff of any kind. In the Chicago city council, a permanent staff serves the finance committee in handling the budget; but it happens to be the only staff which is concerned with the budget, since this document is formulated by the finance committee and presented to council. The board of estimate and apportionment of New York City is supplied with a staff which aids it in its dual capacity of formulating and adopting the budget. This staff may also aid the board of aldermen in considering the budget, but in practice its services are rarely, if ever, requested. The city auditor or other fiscal officer, which is independent of the administration, may be used by the council as a staff agency in the examination of the budget.

**Placing the Budget Before the Legislative Body.**—The placing of the budget before the legislative body may be a mere incident in the day's work, passing almost without notice, or it may be one of the most important occasions of the entire legislative session. The budget may be submitted in a purely routine manner, as is the usual practice in American governmental units. The budget message, if any, may or may not be read by some legislative clerk, whose monotonous voice fails to stir the interest of his auditors. The budget is then referred to the appropriate committee or committees and the members of the legislative body hear no more about it until

the committee reports are ready for consideration some time later. There is nothing striking or dramatic about such a performance, nothing to arouse the interest of the legislators, much less of the public. The stage setting which helps to create news value is lacking. The newspapers find it difficult to produce front page stories about the budget under these circumstances.

On the other hand, it is possible to present the budget to the legislative body in such a way as to excite public interest in it and to stimulate the examination of its proposals by the members of that body. England has accomplished this to a remarkable degree through the "budget speech," which is delivered by the Chancellor of the Exchequer before the House of Commons assembled in committee of the whole on ways and means. This speech "opens the budget"; in reality it may be said to be the budget, since it sets forth in general terms the financial plan of the government. It is carefully prepared by the Chancellor and usually takes him two or three hours to deliver. During this speech and in the discussion which follows it, any member of the House of Commons may interrogate the Chancellor. The members of the opposition usually make speeches in which they may take issue with the Chancellor's budget proposals, sometimes criticising them very strongly and setting forth their own views concerning the budgetary requirements of the government.

While our governmental system does not readily lend itself to the English practice owing to the independence of the executive and the legislative branches, notably in the national and state governments, it is nevertheless possible for the executive to appear before the legislative body and deliver a budget speech in connection with the presentation of his budget. In fact, this has been done in certain states. Governor Cox of Ohio appeared before the 1917 legislature assembled in joint session and spoke on his budgetary proposals. In 1919 Governor Lowden of Illinois addressed a joint session of two houses of the legislature on his budget. His director of finance, Omar H. Wright, was also present and discussed certain features of the budget. These are merely two of the occasions on which governors thought it worth while to present their budgetary proposals in person to the legislatures. Undoubtedly, if this were the general practice, greater interest would attach to state budgeting. In the case of the national budget, the President might also appear before a joint session of Congress and explain his budgetary proposals. While such action would help to dramatize the national finances, the leaders of Congress continue jealously to guard the

prerogative of their committees. Not since the days of Washington has a President attempted to present, either in person or through his Secretary of the Treasury, the balanced financial requirements of the government.

In 1919 Massachusetts inaugurated a rather singular procedure with reference to the legislative handling of the budget. When the governor's budget was submitted to the legislature during the early part of January, it was immediately referred to the ways and means committee of the house of which Benjamin Loring Young was chairman. After this committee had studied the budget for a month and had drafted a general appropriation bill based upon the governor's recommendations as modified by the committee, Mr. Young reported the bill to the house and at the same time made a budget speech. This speech set forth the general fiscal policy of the state government which the governor had failed to do by a budget message. It aroused unusual interest at the time; it was quoted widely by the newspapers of the state and commented on as a notable contribution in the field of state budgeting.<sup>1</sup> Since that time it has been the practice for the chairman of the house ways and means committee to deliver a budget speech upon the submission of the committee report and the general appropriation bill. This usually takes place during February, or from a month to six weeks after the governor's budget goes to the legislature. The governor now submits a message with his budget, but this is ordinarily received in the most routine manner. More publicity is generally given to the budget at the time the budget speech is delivered. Since 1922, this speech has been given each year by the same individual, Henry L. Shattuck, who still continues (1929) as chairman of the house ways and means committee. Mr. Shattuck speaks for the senate ways and means committee as well as for his own committee, since the two committees by agreement have considered the budget in joint sessions since 1920. By this practice the leaders of the dominant political party in the legislature, acting through the chairman of the house ways and means committee, have assumed final responsibility for outlining the financial policy of the state government. The governor's budget and budget message are largely preliminary. Of course, when the governor is a member of the political party in control of the legislature, as is usually the case in Massachusetts, his budget recommendations carry weight with the ways and means committees.

<sup>1</sup> See Luther H. Gulick, *Evolution of the Budget in Massachusetts*, 1920, pp. 176-182.



**Legislative Consideration of the Budget.**—The consideration of the budget is without doubt one of the principal legislative tasks. It involves the study by committees or otherwise of myriads of details relative to the expenditures and the income of the government. And this is not all: it often gives rise to political controversy among the members of the legislative body. In the words of Gaston Jèze: "*Le budget est essentiellement un acte politique.*" Undoubtedly, the way the budget is handled by the legislative body has much to do with the merits of the final result. The lower house of the bicameral legislative body is usually given precedence over the upper house in handling the budget and the budget bills. The Constitution of the United States provides that "All bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments as on other bills." While this provision refers only to revenue bills, it has been interpreted from the beginning as being applicable to appropriation bills as well. The Senate has generally acquiesced in this interpretation, so that it does not as a body consider the budget bills, either the revenue or the appropriation bills, until the House has voted these bills. About half of the state constitutions contain provisions similar to that of the federal Constitution. In some cases, for example, Massachusetts, all money bills are required to originate in the lower house and the senate may only propose or concur in amendments. The general practice in the state legislatures is for the lower house to vote the budget bills, which are then sent to the upper house for its approval. If the upper house amends any one of these bills, it must come back to the lower house for concurrence. In case the lower house does not concur, the bill must go to a conference committee composed of members of both houses for final agreement.

**Committee Action on the Budget.**—While most foreign countries use the committee system in considering the budget, the United States perhaps goes farthest in this direction. The committees of the various legislative bodies in this country generally exercise broad powers in taking action on the budget; in some instances, they may even recast it completely, so that executive responsibility for the budget is practically dissipated. This is not true, however, in England. There the practice tends to go to the other extreme. The "estimates," that is, the departmental requests as approved by the Treasury, go before the whole House of Commons sitting as a committee, and are examined without any previous inquiry. In other words, the House is not guided by any reports from standing committees in taking action on the budgetary requirements. By this

procedure the responsibility of the Cabinet for the budget, which is entirely its work, is increased rather than lessened.

In the various governmental units of the United States the budget is, generally speaking, referred to one or more standing committees immediately upon its submission to the legislative body. If appropriation or other bills accompany the budget, these are usually referred to the same committees. As a rule, the committees start at once to consider the budgetary recommendations, particularly those relating to proposed expenditures. In Congress and in the state legislatures, the committees of the lower house are generally the first to begin work on the budget. Of course, in those states where there are joint committees or committees acting jointly between the two houses, the committee work on the budget proceeds simultaneously.

When the President's budget is submitted to Congress, the House of Representatives takes action upon it by immediately referring it to the Committee on Appropriations. If the budget contained revenue proposals, which so far it has not, these would be referred to the Committee on Ways and Means. The Committee on Appropriations is divided into ten subcommittees, as we have already explained. Each of these subcommittees is responsible for framing a major appropriation bill, which is drafted along the lines of the general policy determined by the whole committee. The subcommittees begin their work by holding hearings on the departmental estimates assigned to them. Sometimes these hearings are started as much as a month before the President's budget is transmitted to Congress. In this event the appropriation bills may be almost ready for consideration when the budget is received. This would seem to be putting the cart before the horse, since the congressional subcommittees are busy fashioning the appropriation bills before the President's budgetary proposals are made known. As a matter of fact, however, the departmental estimates upon which the subcommittees hold hearings have already been scrutinized by the Bureau of the Budget and revised to bring them within the general expenditure limits set by the President. In this respect the estimates resemble those that go to the British Parliament several weeks before the budget is "opened" by the Chancellor of the Exchequer.

In conducting the hearings, each subcommittee summons the departmental heads, bureau chiefs, and other administrative officers and asks them to explain their estimates. Emphasis is generally placed on any changes, particularly increases, over the amounts appropriated for the preceding year. The testimony at these hearings is reported stenographically and printed for use when the appropria-

tion bills are being considered in the House.<sup>1</sup> It frequently amounts in the aggregate to several thousand pages, and usually contains much valuable information about the workings of the departments and agencies of the government. As soon as the subcommittee has digested the testimony and studied the other evidence in connection with the estimates, it presents its recommendations in the form of an appropriation bill to the whole committee. This bill may be changed by the whole committee before it is reported to the House. It may, or may not, conform to the President's recommendations in his budget.

As the appropriation bills pass the House they are sent to the Senate and immediately referred to the Committee on Appropriations of that body. This Committee turns the bills over to its ten subcommittees which are organized similarly to those in the House. These subcommittees hold hearings on the bills at which the same officials are usually called and the same field covered as in the case of the House subcommittees, but the examination is by no means as thorough. The testimony at these hearings is also stenographically reported and printed for use in discussing the bills on the floor of the Senate. Each subcommittee may, and usually does, amend the bill which it has in hand. Then the bill goes to the whole committee and may be further changed before being reported out. By this time, it may differ considerably from the House bill and from the President's budget recommendations.

In the majority of states the budget is handled by the legislative committees in much the same manner as the congressional committees handle the national budget. The budget with the accompanying bills, if any, is referred by the presiding officer of each house to the appropriate committee. The house committee usually is the first to begin work on the budgetary proposals and to report out the necessary appropriation bills. But this is not the established procedure, as it is in Congress. Frequently the senate committee works on the budget at the same time and has its recommendations in definite form even before the house bills are voted and sent to the senate.<sup>2</sup> When the house bills are referred to the senate committee, it revises them to conform with its recommendations, if any, and reports them to the senate for action. The bills that come from either committee are substituted for any that may be on the

<sup>1</sup> Of course, not all that is said is actually reported. The irrelevant matter which always creeps into such discussion is largely eliminated. Other matter, which may be quite significant, is frequently omitted at the direction of the chairman.

<sup>2</sup> In some instances, the appropriation bills are first sent from the senate to the house.

calendar at the time, such as the bills which the governor submits with his budget. In the few states where there is a joint committee between the two houses or where separate committees act jointly, the committee consideration of the budget and budget bills of course goes on simultaneously and the same reports are made to each house. This not only prevents duplication of committee work but aids in legislative consideration, since identical reports are submitted in each house.

The thoroughness of committee work on the budget in state legislatures depends largely upon the experience and training of the committee members. Except in a few states, this work cannot be said to be very satisfactorily done. The committee members either lack legislative experience or suitable training for the work. Of course, an attempt is made in every state to have at least a few experienced members on each budgetary committee. But, generally speaking, there is no established practice in this regard, as there is in Congress. The congressional committees handling the budget are deemed to be among the most important of the national legislative body, the members of these committees usually serving an apprenticeship on other committees before being appointed. Little, if any, consideration is given to trades or professions in choosing the members of committees which handle the budget in state legislatures. For example, the joint appropriation committee of New Jersey recently consisted of four lawyers, a merchant, a broker, a florist, a farmer, and a real estate agent. From the standpoint of technical qualifications, this committee could not be said to be suited to its work. Nevertheless, it happened to be fairly representative of the chief interests in the legislative body, a thing that is important from the standpoint of policy determination. Perhaps, after all, this is just as satisfactory as having a membership which is more experienced in public or private finances, especially if staff assistance is provided.

In considering the budget, the legislative committees of some states are required to hold open sessions at which they examine officers and representatives of the spending agencies as to their estimates. Citizens and taxpayers interested in the estimates may also appear and be heard at these sessions. In short, the meetings of the committees are in the nature of public hearings. Sometimes the governor, or his representative, and the governor elect are permitted to attend these meetings and to discuss all matters coming before the committees. But this is more the exception than the rule; in general, committee meetings on the budget are held behind



closed doors rather than being open. No officer of the government or citizen of the state may attend these meetings unless requested or invited.

It is still the practice in some states for legislative committees when considering the budgetary requests to visit the more important institutions and agencies of the state government. This necessitates several trips around the state by the committee members, since the institutions are widely scattered in nearly every state. These trips are usually expensive, especially when the committees are large and the members all insist on going and taking some of their friends along. At one time the railroads in some states furnished free transportation on such occasions, expecting in return to receive favors from the legislature. But this practice has been discontinued. Appropriations must be made to cover the traveling and living expenses of the committee members, secretaries, clerks, stenographers, and friends of the members, while on these trips. When visiting state institutions, the trips are usually scheduled ahead and often so planned that meals can frequently be taken at the institutional plants. The result is that everything is put in order at the institutions and the committee sees just about what it is intended to see. Perhaps three or four hours are spent at each institution, half of which time is devoted to things of a culinary or social nature. The management is given an opportunity to curry favor from the committee by means of good food, drinks (?), cigars, and stories. In the end when the final recommendations are being made, the committee is likely to remember each institution more for the repast which it served than by the needs of its work. Thus, these inspectional tours of the legislative committees frequently degenerate into "junkets." They fail almost completely to serve any useful purpose in state budget making.

While it is becoming more and more the practice for the budget making authority to submit bills with the budget to carry out its financial proposals, there are still several states in which the appropriation and other bills are drafted by the legislative committees to which the budget is referred. These bills may follow the budgetary proposals or they may not. In some states, however, certain limitations are set on the action which the legislative committees, or the legislature as a whole, may take on the budgetary proposals.<sup>1</sup>

In many of the local governmental units, the committee procedure of the legislative bodies in handling the budget is similar to that of state legislatures. There is, however, this distinction.

<sup>1</sup> See below, pp. 406-413.

Since practically all local legislative bodies are unicameral, the duplication of work between the committees of two houses is eliminated. The local budgetary committees, therefore, operate like the joint committees in a few states. Where a local legislative body has a large membership, the committee to which the budget is referred usually consists of a limited number of the members. This committee studies the budget, makes its recommendations, and reports to the whole body. The procedure in this case is quite like that of the state legislative committees. But where the local legislative body is small, consisting of perhaps five, seven, or nine members, the committee which handles the budget is often composed of all members of the body. Committee action in this case resembles the procedure of committees of the whole, which we will discuss below.

Frequently the local committee handling the budget prepares the appropriation bill for the consideration of the whole legislative body. This practice, however, is not as common as it is among the state legislative committees, since the local budget is more often submitted with an attached appropriation bill. Indeed, the local budget is sometimes little more than an itemized appropriation bill. The legislative committee always uses this bill as the basis for its recommendations. As a general rule, neither the committee nor the legislative body is limited in changing the proposals of the budget making authority as set forth in the appropriation bill. This may result in considerable modification of the original budget plan, particularly in the mayor and manager governed cities.

*Committee of the Whole Procedure.*—The ordinary standing committee procedure, which we have discussed above, has been roundly criticized because of the possibilities that it offers for completely upsetting the original budget plan. "The purpose of requiring the executive to prepare the budget is to make spending officers responsible for planning and for making public their plans before further authority is granted. If we stop here and do not provide the means whereby individual members of the legislature can find out what these plans are, if we put these plans in the hands of a standing committee to be made the subject of secret bargaining, the executive proposals will be hacked and mutilated beyond recognition, without anyone, even the governor, the members outside the committee rooms, or the public ever finding out just what happened."<sup>1</sup>

Committee of the whole procedure has been proposed as a more desirable method for handling the budget in the various legislative

<sup>1</sup> "The Elements of State Budget Making," *Municipal Research*, No. 80, December, 1916, p. 38.

bodies of this country. Instead of referring the budget to a small group of members selected from the legislative body, the whole body actually sits in committee. The presiding officer of the body leaves his chair and some member temporarily takes his place as chairman of the meeting. Discussion is carried on during the meeting in an informal manner; administrative officers and citizens may appear and express their views. The consensus of opinion among the members may be ascertained by taking a vote on each of the main points or items. When the committee of the whole has concluded its work, the presiding officer again takes his seat. The committee rises and reports through its chairman the action which has been taken. The recommendations of the committee are then before the body and action is taken on them in the regular manner.

It cannot be denied that the committee of the whole procedure has some attractive features from the standpoint of budgetary consideration. This procedure undoubtedly promotes discussion and publicity of the financial proposals, such as is not possible under the standing committee system. It helps to develop the "opposition" in the legislative body; it permits discussion by dissenting members of the majority party without incurring the charge of party treason. It eliminates log-rolling behind the closed doors of the standing committee room; it prevents "gag rule" on the legislative floor. Ordinary legislative procedure is grossly inadequate for the proper handling of complicated measures, such as appropriation and revenue bills. It compels voting on numerous propositions in these bills, after perhaps days of debate, when the arguments on many of the points may have been forgotten, indeed may not have been heard at all by many who vote. Such procedure does not make for independent judgment; the impulse of the members is to vote "Yes" every time, or "No" every time. By a committee of the whole, these propositions, no matter how numerous, may be taken up and acted on one at a time. While the procedure of the committee of the whole may be considered rather clumsy, it can be made to serve a useful purpose, particularly in handling the budget bills. For this reason, it ought to be preserved and utilized until our legislative bodies have found a simpler method.

The British House of Commons employs the committee of the whole exclusively in considering the budget. In fact, standing committees have largely fallen into disuse under the English cabinet system of government. Although the committee of the whole was introduced in the United States in the early days, it was never extensively used for budgetary purposes. It was soon almost en-

tirely displaced by the standing committee system, which has come to flourish here as perhaps in no other country.

At the present time, it is customary for the lower house of Congress upon receiving the appropriation bills from its standing committee to resolve itself into a committee of the whole for consideration of these bills. This, however, is merely for discussing and taking action on the recommendations of the committee. Now and then a state legislature will make use of the committee of the whole in much the same way as the House of Representatives. Many of the local legislative bodies use a procedure approaching that of the committee of the whole. This is especially true where these bodies consist of only a few members.

Despite the reluctance of legislative bodies to use the committee of the whole, the advantages of having the executive and administrative officers appear before these bodies and discuss the budgetary proposals is beginning to be recognized. This is very significant; it has been referred to as "the one big principle of government which we have missed—one which is essential to the preservation of the fundamental political concepts of democracy." For more than a century "the sacred doctrine of the separation of powers" was allowed to stand in the way. But the Maryland budget amendment, adopted in 1916, declared that "the governor and such representatives of the executive departments, boards, offices and commissions of the state expending or applying for state's money, as have been designated by the governor for this purpose, shall have the right, and when requested by either house of the legislature, it shall be their duty to appear and be heard with respect to any budget bill during the consideration thereof, and to answer inquiries relative thereto." This provision has been repeated in substance in several other state budget laws of a more recent date, notably the New York budget amendment of 1927. If the full benefit of such a provision is to be realized, it appears that something like the committee of the whole must be followed. So far, no definite procedure has been outlined in any of the states having this provision. In Maryland, for example, the governor has at one time or another conferred with the standing committees of the two houses of the legislature which handle the budget bill, but these meetings have not been public and they have only included the committee members. There has been very little discussion of the budget plan on the floor of the legislature; in fact, the customary procedure has tended to discourage discussion. Certainly something different was contemplated by the budget amendment.



The New York budget amendment, adopted in 1927, specifically states that the procedure for the appearance of the governor and the department heads before the legislature to be heard or to answer inquiries relative to the budget must be provided by law. The 1928 session of the legislature failed to enact any law covering this point, although it was known that the budget amendment would become effective before the next regular session met. The 1929 session, however, attempted to fulfill its constitutional responsibility by passing a bill which provides that the governor's budget is to be referred to the senate finance committee and to the assembly ways and means committee and that the governor and the department heads are to be heard before these two committees rather than before the legislative body as a whole.<sup>1</sup> In approving this bill, Governor Roosevelt said:

I am approving this bill solely because it confers an additional right upon the governor and the heads of the departments to appear before the committees not provided for in Article IV-A of the constitution as adopted in 1927. I note, however, that the legislature has failed to incorporate in this bill, as required by Section 3 of Article IV-A of the constitution, the procedure for the appearance of the governor and heads of departments before the two houses in session. I can assume that such a bill will be submitted to me in accordance with the mandate of the constitution. At all events, the bill before me is not objectionable since it does not interfere with that right to appear before the houses in session and merely confers an additional right.

That the framers of the New York budget amendment contemplated an open discussion of the governor's budget before the two houses of the legislature, with the governor and his department heads present, there seems to be little doubt. But the 1929 session of the legislature, for purely political reasons, it appears, has attempted to provide otherwise, and thus thwart for a time, at least, the intent and purpose of the constitutional amendment.

Several cities, especially those with the manager form of government, have gone further than the states in providing that the chief administrative officers may take part in the deliberations of the legislative body. In Cleveland, Ohio, for example, all meetings of the council and of the standing committees of the council are open to the public. The manager and the department heads are given seats in the council, without the right to vote, and are allowed to take part in all discussions. It has been found that the bringing of these administrative officers on the floor of the council where they may be quizzed by members of the council stimulates public

<sup>1</sup> Chapter 5, Laws of 1929, approved February 5, 1929.

interest, particularly in the budget. This procedure gives all members of the council an opportunity to study the budget proposals of the manager; at the same time, it permits the minority members, if they choose, to criticise these proposals. A discussion of the budget can be staged that has real news value. The public may become informed about the budget either by visiting the open meetings or by reading the newspaper reports of these meetings. This method resembles that of the committee of the whole.

*Public Hearings by the Legislative Body.*—In a previous chapter, we discussed the holding of public hearings by the budget making authority and came to the conclusion that, except in certain cases, there was not much to be gained by such procedure.<sup>1</sup> It seems much more satisfactory, as a general rule, for the legislative body to hold public hearings on the budget. The financial plan has then been definitely formulated by the budget maker. The budget document, containing this plan, is available for examination; usually it has been published, so it can be studied carefully by all who are interested in it. In short, this appears to be the propitious time for holding public hearings on the budget.

Two methods may be employed by the legislative body in holding hearings on the budget. Either the standing committee handling the budget may conduct them, or they may be held before the legislative body as a whole. There are some disadvantages to the first method. Only the members of the committee benefit by any information which may be brought out at the hearings. Opportunity is not given to all members of the legislative body to enter into the discussion. The minority or the opposition members are therefore pretty effectively curbed, except for the small representation which they may have on the committee. The second method may be objected to on the ground that it tends to draw out interminably the discussion at the hearings. Of course, it cannot be successfully carried out except through the committee of the whole.

There are no public hearings on the national budget either before Congress or its committees. The committees hold hearings on the estimates at which the administrative officers appear in behalf of their requests, but these hearings are not public. However, a stenographic record is kept of the proceedings, which is published for the use of the members of Congress.

Several of the state budget laws provide for public hearings on the budget to be held by the legislature. Invariably these hearings are conducted by the committees. In North Carolina and

<sup>1</sup> See above, pp. 359-361.

Virginia, for example, the joint committees handling the budget are required to hold open sessions at which taxpayers and other persons interested in the financial plan may appear and be heard. Rarely do taxpayers, as such, appear at these hearings. The persons who do appear usually have an axe to grind—some special interest that they wish to further with state money. Frequently only state officials are present, and these are interested mainly in supporting their requests for appropriations. But anyhow, the hearings are open; anyone who chooses may attend them. Even if the public does not find it convenient to attend for geographic or other reasons, the press may report what transpires. This, indeed, is something. Perhaps the ends of democracy are just as well served.

Local governments, particularly cities, generally follow the practice of holding public hearings on the budget. These hearings are held either before the legislative body as a whole or before a standing committee of that body. The area of most local governments is small enough to make it possible for citizens to attend the hearings. At the same time, the budget proposals of these governments touch the interests of the citizen body more directly and more closely than do those of the larger governmental units. Even so, many cities report little or no public interest in the open hearings on the budget. Perhaps this condition is due to the fact that the hearings are usually held on stated dates and in the most perfunctory manner. Public opinion generally remains more or less passive until aroused, and there is nothing about this routine procedure to arouse it. In a few cities, an attempt has been made to meet this situation by means of public meetings on the budget held in different parts of the community. The mayor or the manager conducts these meetings during the time the council is considering the budget, explaining the budgetary proposals and inviting questions and criticisms. In some instances, these meetings have seemed to stimulate public interest in the budget.

**Supplementary Estimates by the Budget Making Authority.**—The national government and several state and local governments have legal provisions whereby the budget making authority may submit to the legislative body supplementary or additional expenditure estimates after the budget has been transmitted and before final action has been taken on it. In some instances, these estimates are referred to as "supplementary budgets," implying that they are to carry with them adequate means of financing.

The national budget law provides that "the President from time to time may transmit to Congress supplemental or deficiency esti-

mates for such appropriations or expenditures as in his judgment (1) are necessary on account of laws enacted after the transmission of the budget, or (2) are otherwise in the public interest." He is required to accompany these estimates with the reasons why they are necessary and to explain how they came to be omitted from the budget. Whenever such estimates in the aggregate reach a point where, if they had been contained in the budget the total means of financing would not have been sufficient to meet them, the President is required to make recommendations for additional revenue so as to keep the budget in balance.

Every year since the adoption of the budget system, the President has found it necessary to submit supplementary expenditure estimates as he is permitted to do under the foregoing provisions. But it appears that in no year has the aggregate of these estimates been considered large enough to consume the estimated surplus, thus making it necessary for the President to recommend additional sources of revenue. Experience seems to indicate that the supplementary estimates have not greatly decreased since the budget system was adopted, rather they have increased during the most recent period. For example, the budget for 1929, transmitted to Congress in December, 1927, totaled \$4,258,793,765.53, and supplementary estimates were submitted by the President during the session aggregating \$22,071,319.38, making a grand total of \$4,280,865,084.91. For the previous year's budget the supplementary estimates submitted by the President had totaled \$8,400,633. In addition to the supplementary estimates to the 1929 budget, the President also submitted to Congress deficiency estimates for the fiscal year 1928 and prior fiscal years amounting in the aggregate to \$356,511,729.23. Of this amount, \$203,675,193.27 was shown in the budget document as transmitted at the beginning of session. The remainder, or \$152,836,535.96, was additional deficiency estimates submitted after the budget had been sent to Congress. In other words, there were estimates before Congress totaling almost \$175,000,000, which had the approval of the President and which were not included in his budget. A large part of this amount, of course, is due to the system under which the federal government operates and under which spending agencies may create deficiencies to be met by additional appropriations made during the fiscal year or even after it has closed.<sup>1</sup> But nevertheless it indicates a failure to make adequate estimates at the time the budget is prepared. Anticipating criticism on this score, President Coolidge said in his 1929 budget message: "In our great

<sup>1</sup> See below, pp. 486-487 for a discussion of these deficiencies.



and growing government changes are kaleidoscopic and new needs and imperative new demands arise over night calling for congressional help. . . . While actual deficits are rare, supplementals, because of the reasons cited, persist, and persist large in amount and many in number."

To meet conditions which cannot be anticipated in the original budget, the English resort to supplementary estimates, by which additional amounts are voted to meet the extra requirements. These estimates are analogous to our deficiency estimates. They are transmitted to the House of Commons whenever necessary during the fiscal year, but usually in the Summer and Spring. No year goes by without supplementary estimates; this is due mainly to the general complexities of the governmental operations, the prompt closing of the year's accounts, and the cessation of transfers. Nevertheless, these estimates are regarded by competent English authorities as "one of the greatest financial evils." "They are," says E. Hilton Young, "a diseased excrescence on the year's finance, and the success in finance of the Ministry may be measured by their ability to do without them."<sup>1</sup> Gladstone was of the opinion that in order "to render parliamentary control effectual it is necessary that the House of Commons should have the money transactions of the year presented to it in one mass and in one account." He foresaw that by excessive use of supplementary estimates the original budget could be deprived of any value, if not completely destroyed. It has, therefore, become the accepted policy to confine these estimates to the narrowest limits consistent with carrying on the work of the government in an effective manner. In case of great emergency, the recognized English expedient is a "vote of credit" by Parliament. While this breaks away from the unity of the budget, it does it in the least dangerous way, since it indicates that the proceeding is irregular and exceptional.

A comparison of the English and American experience in the matter of providing for additional expenditures during the budget year is interesting. As we point out above, the deficiency estimates actually voted by Congress for the fiscal year 1928 amount in the aggregate to more than \$356,000,000.<sup>2</sup> This is approximately 8.8 per cent of the original budget authorizations for 1928, which totaled \$4,014,988,936. The additional expenditures to the English budget for 1927-28 which were authorized on the basis of supplementary estimates amounted to £5,814,000 as against £833,390,000

<sup>1</sup> E. Hilton Young, *The National System of Finance*, 2nd edition, 1924, p. 77.

<sup>2</sup> A small part of this amount belonged to 1927 and prior fiscal years.

in the original budget, or less than seven tenths of one per cent. From this comparison, our national budget system makes a poor showing. And this is not entirely the fault of the Executive who proposes the deficiency estimates; Congress often encourages such estimates by the stand which its appropriation committees take. Efforts are, however, being made to reduce the ordinary and avoidable deficiencies through budgetary control, but progress in this direction is rather slow. While recognizing deficiency estimates as an evil, Mr. Willoughby presents some arguments in defense of the system. He says that there are many items in the budget which it is impossible for the Bureau of the Budget or Congress to estimate accurately; furthermore, that the estimates are originally prepared by the spending agencies almost a year before the beginning of the fiscal year to which they apply and are included in the budget seven or more months before the opening of such year.<sup>1</sup> While this is true, it is apparent, nevertheless, that the deficiency estimates have not yet been reduced to the minimum consistent with good financial control. They still threaten to destroy the unity of the budget plan.

Turning to the state governments, we find legal provisions similar to those contained in the national budget law. However, in these governments the supplementary estimates usually refer to the proposed budget and not to deficiencies. In the Maryland budget amendment of 1916, it is provided that the governor may amend or supplement the budget (appropriation) bill which he submits with his budget before final action thereon by the legislature. It has been the practice for the governor to submit amendments or supplements to his budget (expenditure side) every time, or nearly every time, this document has been before the legislature. In most cases, the purpose of these amendments or supplements has been to correct errors or omissions; although, now and then, it appears that the legislature has through political influence caused the executive to increase his original proposals by this means. In this way the legislature has been able to get around the restriction which the budget amendment placed upon the passage by it of supplementary appropriation bills.<sup>2</sup>

Several other states, notably, California, New York, and Massachusetts, have provisions by which the governor may submit estimates supplementary to the budget. The California budget amendment permits the governor at any time, either before or after the

<sup>1</sup> See W. F. Willoughby, *The National Budget System*, 1927, pp. 104-5.

<sup>2</sup> See below, p. 411.

passage of the budget (appropriation) bill, to amend or supplement the budget and to propose amendments to the budget bill. As in the Maryland amendment, nothing is said about keeping the budget in balance. The New York budget amendment allows the governor to amend or supplement the budget before the legislature takes final action on it and not more than thirty days after its submission. But he may, with the consent of the legislature, submit such amendment or a supplemental bill at any time before the adjournment of the legislative session. The Massachusetts budget amendment permits the governor at any time during the legislative session to recommend "supplementary budgets." The term used in this case implies that both the income side and the expenditure side of the budget are to be taken into account in any supplementary proposals which the governor may make to the legislature.

The provision for supplementary estimates is not infrequently found among local governments. The charter of Boston, for example, states that the mayor may submit to the city council "supplementary budgets" until such time as the tax rate for the year has been fixed. Here again, it is implied that he must keep in mind his original budget in submitting the additional proposals.

The supplementary estimates or budgets are almost uniformly subject to the same procedure in the legislative body as the original budget. They are sent, upon submission by the budget making authority, to the standing committee which handles the budget. This committee considers them much in the same manner as it does the budget and makes its recommendations to the legislative body. When the supplements or amendments are received before the budget has been reported out by the committee, the usual practice is for the committee to combine the supplementary proposals with the original proposals and report them all out together.

While it seems advisable to provide that the budget making authority may amend or supplement the budget after it has been submitted to the legislative body, there are certain dangers which lurk in the background of such procedure. Without some limitation either in law or practice, it is possible for the budget making authority to remake the budget by this procedure after it has gone to the legislative body. This may lead to haphazard planning in the original budget with the expectation of revising or readjusting it at a later date. If no attention is paid to the income side of the budget in the course of amending or supplementing the expenditure side, the budget may be completely thrown out of balance. These are things to be avoided. The budget should be as complete as it is

possible to make it—in view of the probable requirements of the government—when it is submitted to the legislative body. Then if the budget is prepared near the beginning of the fiscal period, there should be very little necessity for supplementary estimates or budgets on the part of the budget maker. Any amendments or supplements to the budget should be limited to the original proposals and these should be permissible only when they are of a minor nature. Material additions to the expenditure side of the budget should be made only when the budget maker obtains the consent of the legislative body to introduce the supplementary proposals. Of course, when the procedure makes it difficult for the legislative body to add to the budget, as is the case in the state of Maryland, this consent is usually forthcoming, provided the legislators are interested in the additions. In such cases, the budget maker should be required to make public a statement which shows how his supplementary proposals affect the balanced relation of the income and expenditures of the original budget.

#### **Action on the Budget—Enactment of the Budget Bills.—**

In the course of this discussion, we have spoken several times of the adoption of the budget, meaning essentially the action which the legislative body takes on the budget. As a matter of fact, according to American practice, legislative action is taken on only one part of the budget, namely, the budget bills. The other parts of the budget, except as they are referred to as sources of information, are practically disregarded by the legislative body as a whole. The budgetary proposals, therefore, are adopted only through the passage of the budget bills, except in so far as they may be covered by permanent legislation.

In this connection, it is interesting to note the contrast between English and American practices. The House of Commons actually adopts the expenditure side of the budget section by section before the appropriation bills are even drawn. The British budget is divided into about one hundred and fifty sections, called "votes." These sections are taken up one by one, at least the more important ones, discussed in detail in committee of the whole, and then voted. The adoption of the budget in this way is equivalent to the authorization of expenditures. But in order that the expenditures may be made, there must be further action; the funds must be appropriated through the passage of the appropriation bill. Not until after the budget is voted is the appropriation bill prepared and passed. This disposes of the expenditure proposals of the budget so far as Parliament is concerned. In handling the revenue proposals of the



budget, the English practice again differs from the American. The English tax system, as is the case in this country, is more or less permanent. Only a few taxes, such as the income tax and the taxes on certain commodities like tea, are varied from year to year to give some flexibility to the government's income.<sup>1</sup> Proposals for varying these taxes so as to balance the budget are made by the Chancellor of the Exchequer in his budget speech. Immediately upon the conclusion of his speech, the revenue changes which he recommends are initiated by resolution and may take effect as early as the following day.<sup>2</sup> There is no waiting for several months to effect changes in the revenue system, as is the case in this country. The revenue proposals of the Chancellor are realized at once, usually a considerable time before the appropriation bill is passed. According to American practice, the reverse is often true; the appropriation bills may be passed and the expenditure program embarked upon long before any action is taken on the revenue proposals of the budget.

A further contrast between the English and American practices is to be found in the time allotted to the consideration of the budget during the legislative session. In England a large part of the parliamentary session is occupied by the consideration of the budget, particularly the expenditure estimates. At least twenty days, spread over about ten weeks, beginning in May and extending to the end of July, are so occupied. This legislative consideration starts soon after the budget has been presented by the Chancellor of the Exchequer. The budget is considered in committee of the whole during this period; its scrutiny becomes the principal work of Parliament until it is adopted. Such is not the case in the United States. As we have already stated, the President's budget when presented to Congress is referred to certain standing committees. These committees spend considerable time on the budgetary proposals, sometimes extending over two or three months, before they submit their recommendations to Congress in the form of bills. Congress, as a body, does not give a great deal of time to the consideration of these bills; they are generally passed in a routine manner. Frequently many of them are acted on near the close of the (biennial) short session, which is limited to ninety days, thus making it possible for a filibuster in the Senate to hold up the proceedings and prevent

<sup>1</sup> In 1929 the tax on tea, which had been in existence for about 325 years, was discontinued.

<sup>2</sup> The law actually authorizing these changes is enacted later. Should it not be enacted for any reason, the amounts collected are refunded.

them from passing. No special time is allotted to the consideration of the budget bills. They are acted on along with various other legislation throughout the session.

Much the same situation with reference to the consideration of the budget exists in many of our state legislatures. Action on the budget bills is deferred until the last week and even the last night of the legislative session. As a result very little consideration is given to these bills by the legislative body as a whole; they are sometimes passed amid a wild scramble in an attempt to clear the calendars of scores of bills before the session must come to a close *sine die*. Some states have actually adopted constitutional provisions to prevent the last minute passage of the budget bills, although this is a matter which might well be controlled through legislative rules.<sup>1</sup> One of the most notable examples of such a provision is to be found in the Maryland budget amendment of 1916. It reads as follows: "If the budget bill shall not have been finally acted upon by the legislature three days before the expiration of its regular session, the governor may, and it shall be his duty to issue a proclamation extending the session for such further period as may in his judgment be necessary for the passage of such bill; but no other matter than such bill shall be considered during such extended session except a provision for the cost thereof."

In the local governments, the situation with respect to last minute action on the budget bills is somewhat different from that in the state governments. The state legislatures meet annually or biennially (in Alabama quadrennially) and the sessions of many of them are limited by constitutional provision to a certain number of days. This is not the case with local legislative bodies; they ordinarily meet several times during each year and their sessions are usually unlimited as to length. There is no point, therefore, to crowding the action on the budget bills at the end of any one session. Some of the local bodies, however, are limited as to the date when they must take final action on these bills. If any confusion exists in passing the local budget bills, it is usually due to an effort to get them through before the expiration of this time limit.

*Procedure on the Floor of the Legislative Body.*—As we have indicated above, the ordinary procedure is to refer the budget to the proper standing committee (sometimes more than one committee) of the legislative body as soon as it has been presented to that body. If the budget bills accompany the budget, they are also sent to the standing committee; sometimes they are introduced and given

<sup>1</sup> See below, p. 404, for a discussion of the practice in Massachusetts.

a first reading merely by title. No further action is taken on the floor of the legislative body until the standing committee sends in its report on the budget proposals. This report is usually accompanied by drafts of budget bills upon the details of which the members of the committee have agreed. In fact, these bills may constitute the only written report which is made by the committee to the legislative body, any explanatory statements being made orally on the floor by the chairman or some other member of the committee.

When the budget bills which are drawn and agreed upon by the standing committee reach the legislative body, they are placed on the calendar for consideration and voting. In this respect, these bills follow the ordinary procedure, although they may be given preference over other bills at certain times. Among the bicameral legislative bodies, the lower house is often the first to take action on the budget bills. This is true in the case of Congress and some of the state legislatures.

In Congress, when the House takes up the appropriation bills as proposed by the Committee on Appropriations, it must first consider these bills in committee of the whole. Since the appropriation bills are highly privileged, it is in order at almost any time to make a motion to go into committee of the whole for the consideration of one or more of these bills. After the motion is made, there is at first a general debate which is limited to a certain number of hours, usually two or three. Unfortunately this debate does not necessarily relate to the appropriation bill under consideration; the members may discuss totally irrelevant matters, such as the Monroe Doctrine. After the general debate is over, the bill is taken up section by section for discussion and amendment under what is called the "five-minute rule." At this point all discussion must be germane to the section of the bill under consideration. Any member may at this time move an amendment and speak for five minutes in its support; other members may speak either for or against the amendment for a like period of time. In this way the House scrutinizes the recommendations of the Committee on Appropriations and makes known its wishes with respect to them. However, in practice, it generally supports these recommendations, amendments rarely being made when opposed by the committee spokesman. Following the consideration in committee of the whole, the bill is reported back to the House with any amendments that may have been adopted. These are acted on by the House; the bill is given its third reading at which no amendments are permissible, is passed, and goes to the Senate. In the Senate, the procedure is essentially the same, except

that individual members cannot propose amendments to an appropriation bill as they can in the House under the consideration in committee of the whole. No senator can offer an amendment to any appropriation bill the effect of which is to increase the appropriation already contained in the bill, or to add a new item of appropriation, unless it is to carry out existing provisions of law. The desirability of amendments of any other character must be passed on by the appropriate committees on general legislation.

The procedure for handling the budget bills in the various state legislatures differs in several respects from the congressional procedure. The upper house in some states receives the budget bills from the committee's hands and votes on them prior to action by the lower house. Consideration of the budget bills follows practically the same routine as in the case of other bills. The committee of the whole is almost never used in this connection. In some states the budget bills are passed rather early in the session; in others, perhaps a majority of the states, these bills are acted on during the closing days, sometimes the last day, of the session. Generally speaking, budget bills rarely receive as much attention as they deserve on the floors of state legislatures. The following observations made by the writer a few years ago with respect to the practice in New Jersey is fairly representative of what happens in many other states.

The senate met on Friday afternoon at 1:40, and the supplemental and annual appropriation bills, known as S. B. 315 and S. B. 316, respectively, were introduced. They were hurried through first and second readings, and ordered to be printed for third reading. Recess was then taken until three o'clock, when the bills were expected to be printed and ready for final action. In the meantime a concurrent resolution had been adopted adjourning both houses of the legislature *sine die* at 6:30 o'clock. The afternoon passed, and no printed bills came. When the hour set for adjournment approached the clocks of both houses were stopped. At a few minutes after six the first few copies of the bills were rushed up from the printer and taken to the office of the supervisor of bills behind the senate chamber. Here a copy of each was hurriedly gone over and the pages were assembled in their right order, for the printer, in his wild rush, had not taken time to staple the pages together. These copies were carried down to the senate chamber, and S. B. 316 was taken up at 6:20 for third reading and final passage on suspended rules by recorded vote. . . . Fifty minutes were consumed in debating and passing the annual appropriation bill in the senate. At 7:10, S. B. 315 was put on third reading by a suspension of the senate rules. . . . Seven minutes were taken up in debating and passing the supplemental bill.

Senate Bills Nos. 315 and 316, after passage in the senate, were immediately carried to the assembly. . . . At 7:32, S. B. 315 was put on third reading in the assembly by suspension of the rules. . . . The supple-



mental bill was passed by the assembly after thirty-two minutes of debate. The annual bill, S. B. 316, was taken up on third reading by suspended rules at 8:07. The debate and final passage of it in the assembly occupied eight minutes. . . .

During the discussion in the assembly of the appropriation bills, there were so many visitors on the floor of the house, so much loud conversation, moving about, and general disorder that one, with the panoramic view afforded by the gallery, could hardly determine what was supposed to be taking place. The gallery was already crowded with people awaiting the hour to arrive for the merrymaking that customarily accompanies the close of each year's legislature. Several of the younger assemblymen wore their dress suits for the occasion and were apparently more interested in the social hour than was to follow than they were in New Jersey's appropriation bills.

The senate had taken fifty-seven minutes to discuss and pass the appropriation bills; the assembly had taken forty minutes, making a total of one hour and thirty-seven minutes of "solemn deliberation" given to the state's appropriations. . . . Neither house of the legislature made any changes in the bills. They were adopted as recommended by the joint appropriation committee. Only one amendment was proposed and it was defeated, having been proposed by a senator of the minority party.

The procedure of local legislative bodies for handling the budget bills is similar in many respects to that of the state legislatures. But, as a general rule, it seems to work out more satisfactorily. There are several reasons for this. The local bodies are nearly all unicameral. There is no seesawing between two houses in case of disagreement until an accord is reached on the bills. Sometimes the committee to which the budget is referred consists of all the members of the legislative body, being in this respect quite like a committee of the whole when in session. Discussion is usually more freely indulged in among the local legislative bodies; limiting rules are not so vigorously applied. In addition, administrative officers are more often present to take part in the budgetary discussion than they are in state legislatures.

The legislative procedure for handling the budget, particularly in the state governments, has been roundly criticised because of the lack of adequate debate on the financial plan. The New Jersey experience, which we have noted above, bears evidence of the failure to discuss the budget bills on the floor of the legislature. It is impossible to consider these bills in the way they should be when they are rushed through on the closing day of the legislative session. The same thing is true of any other day in the session, if the rules of procedure are such as to prevent free discussion. Only the committee members know very much about the contents of the budget bills; the other legislative members have very little opportunity to find out anything about the bills unless they are discussed

on the floor. This is why the members of the minority party, or of the "opposition," are often at a loss to find adequate facts as a basis for criticising the bills when they are being driven through under pressure from the majority party in the legislative body. Attempted discussion under these circumstances is often more humorous than enlightening.

What is the remedy? The committee of the whole, as we have explained above, is successfully used in discussing the English budget. The main objection to such procedure in this country is that the passage of the budget bills would be held up by interminable debate. But the English seem to have met this objection by the application of certain rules which tend to keep the debate within reasonable bounds. The procedure under these rules is known as the "guillotine." According to this procedure, "the practice now is for the opposition to choose the votes which shall be set down for discussion, and when the allotted time has been exhausted all the outstanding votes are passed without debate."<sup>1</sup> This permits the more important votes to be discussed; at the same time it expedites matters by curtailing debate on those votes concerning which there is no great difference of opinion. But in our budgetary practice the committee of the whole is not applied, except in a very limited way; in fact, the trend of American experience is generally opposed to the use of such procedure.

Some states have sought to remedy the situation in another way. For example, Massachusetts prevents the rush of bills through the legislature during the closing days of the session by the application of two legislative rules. A strict time limit is set upon the introduction of bills (Joint Legislative Rule No. 12); after the end of the second week of the session no more bills are received. Since concurrent action by a four-fifths majority of each house is necessary to suspend this rule, it is nearly always adhered to. A second rule (Joint Legislative Rule No. 10) requires the joint legislative committees to report all bills early in the session, and those bills which are not reported by the committees are referred to the next legislature. Under this rule the legislative leaders know by the middle of the third month of the session just how much work remains. Since there is no limit to the length of the session, the legislature usually continues for one or two months after the committee reports are in, thus giving ample time for the study and discussion of the bills. Each committee is required to report every week the status of its work, so that the presiding officers may apply

<sup>1</sup> Henry Higgs, *The Financial System of the United Kingdom*, 1914, p. 32.

pressure whenever it seems necessary to spur up committee action. This prevents congestion of the calendars from the reporting of numerous bills late in the legislative session.

*Conference Committees.*—Conference committees, a product of the bicameral legislative system, are the means finally employed by a legislative body when its two houses cannot otherwise reach an agreement upon the contents of bills or amendments thereto. For example, one house of a state legislature may pass an appropriation bill which, when sent to the other house, is so amended as to be unsatisfactory to the house first passing it; thereupon a conference committee, made up of two or three members from each house, is appointed to adjust the differences in the bill. This committee customarily meets behind closed doors to do its work and no record is kept of its acts. When it has reported to the two houses, they must either accept without amendment or reject *in toto* its proposals. If rejected, another conference committee is appointed and the same procedure is gone through again.

Frequent use is made of the conference committee in Congress and in most of the state legislatures. When an appropriation bill is passed by the Senate that differs from that passed by the House (and this is nearly always the case) a conference committee is usually named. The conferees are chosen in each case from the members of the subcommittees which had charge of the bill and are appointed by the presiding officers of the two houses. Nothing in the bill can be changed by the conferees except where there is a disagreement between the two houses and no new matter can be added. For example, where two amounts are specified in the bill for the same object after it has passed the two houses, the conferees may agree upon a figure which is not smaller than the lower nor larger than the upper amount. Although the conferees may see an opportunity for bettering the bill, they cannot insert any matter in it which is not committed to them by one or the other of the houses. If this is done, a point of order can be raised against the conference report when it is submitted in either house. When a conference report is rejected by either house, more conferences are held until an agreement is finally reached which is acceptable to both houses.

The rules governing conference committees in state legislatures are less rigid in most cases than are the congressional rules. Conferees in state legislatures sometimes take the opportunity to make extensive changes in the bills which they are appointed to adjust. It has even been claimed that the conference committee is used by

the leaders in some state legislatures as a device for the easy exercise of machine control.

Experience seems to show that the conference committee is not a satisfactory agent for settling differences of opinion over the budget bills. It is largely autocratic in its powers, particularly in some of the states. But can it be avoided so long as we have bicameral legislative bodies? Obviously, no. Perhaps the wide use of joint standing committees in the state legislatures would, to some extent, reduce the need for it.

*Restrictions on Legislative Action.*—The restrictions placed by several of our governmental units upon the action which the legislative body may take with respect to the budget are of two kinds: (1) those on increasing the items in the regular budget (appropriation) bill or bills recommended by the budget making authority, and (2) those on the passage of special or member appropriation bills. These restrictions have been developed both from theory and experience. They are an attempt, in the first place, to transplant in this country an important phase of the English budget system, at least, the theory upon which it works, and, in the second place, to offset certain notorious practices which have grown up in the handling of special appropriation bills by our legislative bodies. This will become more apparent in the discussion which follows.

In our local governments, restrictions on the powers of the legislative body to increase expenditure items in the budget date back about thirty years, or practically to the beginning of the budgetary movement in this country. The greater New York City charter, as adopted in 1897 and revised in 1901, contains a provision which forbids the board of aldermen adding to the items of the appropriation ordinance when adopting the budget; it may only reduce these items, in which case its action is subject to veto by the mayor. The Baltimore city charter, adopted about 1904, provides that the city council cannot increase the amounts fixed by the board of estimates in the appropriation ordinance or add any new item thereto. In 1909 Boston adopted a new charter which contains the following provision: "The city council may reduce or reject any item, but without the approval of the mayor shall not increase any item in, nor the total of a budget, nor add any item thereto, nor shall it originate a budget." Later, substantially this provision was made applicable by general law to all cities in the state of Massachusetts. These restrictions, however, have not been widely applied in local government, the cases cited above constituting about the extent of their application.



When the budget movement got under way in our state governments, there was much discussion on limiting the action of the legislature with respect to the appropriations proposed by the budget making authority. Certain budget advocates contended that it was impossible to have a real executive budget system without some such limitations being enforced. This matter was discussed pro and con in the debates of the New York state constitutional convention of 1915, and finally a provision was inserted in the proposed constitution which forbade the legislature altering the governor's appropriation proposals, except to strike out or reduce items therein. This constitution, however, was defeated when submitted to a vote of the people of the state. Attention was next directed to this subject in framing the Maryland constitutional amendment for the establishment of an executive budget system in that state. A special commission headed by Frank J. Goodnow, president of Johns Hopkins University and formerly a member of President Taft's Economy and Efficiency Commission, was appointed by Governor Harrington to draft the text of this amendment, which was adopted by the people of the state in November, 1916. The amendment limits the legislature to striking out or reducing the items contained in the governor's budget (appropriation) bill, except in the case of appropriations for its own uses which it may either increase or diminish, or those of the judiciary which it may only increase. "This limitation," said the commission in its report accompanying the amendment, "is fundamental in our judgment to a sound budget system. It has its counterpart in budget systems of governments most advanced in their fiscal management." The Maryland provision was copied into the West Virginia budget amendment which was adopted in 1918.<sup>1</sup> Substantially the same provision was inserted in the budget laws of Nevada, New Mexico, and Utah, but later eliminated. This provision was included in the Indiana proposed budget amendment which failed to pass the legislature a second time in 1921, largely on account of the restrictions which it imposed. The executive budget amendment adopted by the people of New York state in November, 1927, contains a modified form of this provision, which reads as follows: "The legislature may not alter an appropriation bill submitted by the governor except to strike out or reduce items therein, but it may add thereto items of appropriation provided that such additions are stated separately and distinctly from

<sup>1</sup> The West Virginia amendment, however, did not provide for a budget formulated by the governor, but constituted the board of public works as the budget making authority.

the original items of the bill and refer each to a single object or purpose; none of the restrictions of this provision, however, shall apply to appropriations for the legislature or the judiciary." This modification, allowing the legislature to add separate items which are subject to veto by the governor, is largely the result of the experience in Maryland and West Virginia. As to how this modified limitation on legislative action will work out in New York is still somewhat problematical. To make it at all effective presupposes the continuation of the practice of setting up highly detailed items in the governor's appropriation bills. The experience in Maryland and West Virginia has not been very satisfactory. In fact, West Virginia has sought to change its constitutional amendment in this and other respects. In Maryland, the legislature has at times found a way around the restrictions placed upon it in amending upward the governor's budget bill by persuading the governor to submit supplementary proposals, which he has a right to do at any time before the budget bill is finally passed.

The experience of these states seems to indicate that the executive in this country cannot be made responsible for both the formulation and the determination of the budget, as is the case under the English budget system. This is especially true of our national and state governments which are organized on the basis of a separation of executive and legislative powers. In the budgetary procedure which we adopt, we cannot do otherwise than recognize this distinction, unless and until we are prepared to change our political system. Under this system the formulation of the budget is an executive function, but the determination of it is essentially a legislative function. This distinction is recognized in the national budget act, which was adopted in 1921. Congress retains under this act the full power which it has always had of changing in any manner it may see fit the budgetary proposals of the President. So far (1928), Congress has regarded the President's budget as setting the maximum requirements of the national government, and in no year has it exceeded in the aggregate the executive proposals, although at various times it has considerably changed the recommendations made for certain of the departments and agencies.<sup>1</sup>

Limitations on the action of the legislative body, such as we have discussed above, are after all not the essential feature of an executive budget system in this country. Of much more importance is the authority of the executive effectively to administer the budget

<sup>1</sup>In 1929 Congress did exceed the President's total expenditure recommendations contained in the budget for 1930 by more than \$8,000,000.

plan after it has been determined by the legislative body. With such authority, if the appropriations are increased by legislative action beyond the needs of the spending agencies, the executive can control their expenditure and see that the excess remains in the treasury surplus. Besides, the legislative body is not likely to overstep the proper bounds in appropriating funds if it has before it a clear-cut financial plan prepared by the executive. The authority then to formulate and to execute the budget constitutes the essence of the executive budget under our governmental system. The power to determine and to authorize the budgetary requirements is and remains legislative so long as we cling to the present system, and it ought to be exercised without any hampering restrictions on the part of the executive.

What we have just said applies to the handling of the executive budget proposals by the legislative body as a whole. The power of the individual members of the legislative body to propose special appropriation bills with no regard for the budget plan is quite another thing. That such power should be restricted there seems to be little doubt, if we are to judge from the experience of some of our governmental units. It has been much abused by many state legislatures in the past; large "pork" appropriations and general treasury deficits have resulted from the free and unrestrained exercise of this power. Scores of special appropriation bills have been introduced at a single legislative session by various members, examined in a most cursory way by the committees to which they were referred, recommended for passage, and perhaps rushed through on the last day of the session under cover of the generally prevailing confusion. If not caught by the governor's veto, they became charges on the state treasury. Congress, too, has had some rather unsavory experience in this regard. Literally hundreds of member bills, demanding appropriations for such things as river and harbor improvements, public buildings, and pensions, have been combined by committees into omnibus appropriation bills, totaling millions of dollars. These have been duly passed by Congress and escaped the President's veto, although characterized at one time by the fiery senator from South Carolina, Benjamin Tillman, as "a humbug and a steal." But he added, "If you are going to steal, let us divide it out, and not go on complaining."

Restricting legislators with reference to the introduction of special appropriation bills is something that might have been provided by the state legislatures themselves through the adoption of certain rules. But this they failed to do, so we now have constitutional pro-

visions limiting the power of the legislature with respect to such bills in several states, notably Maryland, California, Massachusetts, and New York. These provisions generally require that the appropriations bill or bills recommended by the governor must be finally acted on by both houses of the legislature before any other appropriations are considered. In Maryland, these latter appropriations must each be embodied in a separate bill, limited to a single work, object, or purpose therein stated; each such bill must carry a tax, either direct or indirect, to finance the total amount of the appropriation; it must be passed by a vote of the majority of the whole number of members elected in each house and the yeas and nays recorded on final passage; and it must be approved by the governor, who has the authority to veto it, if he chooses. The West Virginia budget amendment, which was largely copied from that of Maryland, contains similar provisions, except that each special appropriation bill is not required to carry a tax when it appears that the anticipated surplus in the budget will be sufficient to cover the appropriation contained in the bill.<sup>1</sup> The California budget amendment requires each appropriation bill to be for a single and certain purpose therein expressed, and when passed by the legislature it must be approved by the governor at which time he may veto it in part or as a whole. In Massachusetts, all special appropriation bills must provide the specific means of defraying the appropriations contained in them; when enacted, they must be submitted to the governor, who may disapprove or reduce items or parts of items in any such bill. Under the New York budget amendment, appropriations in addition to the governor's recommendations must be made in separate bills, each for a single work or object, and are subject to executive approval before they become law. The Nebraska constitution requires all appropriations made in excess of the governor's budget recommendations to be passed by a three-fifths vote of each house of the legislature, and when so passed they are not subject to executive veto. These constitutional restrictions on special appropriation bills may be briefly summarized as follows: (1) such bills cannot be considered until the governor's budgetary proposals are passed; (2) they must each be for a single work or purpose; (3) they must each provide the means for financing the appropriations contained in them; (4) they must be passed by a vote of more than a majority

<sup>1</sup> The budget in West Virginia, however, is not formulated by the governor, but by the board of public works consisting of the governor and six other elective officials. The governor, therefore, has only limited authority, except in disapproving special appropriation bills, which he rarely does.



of the legislature; and (5) they must receive the approval of the governor.

In judging the effectiveness of the foregoing provisions, we may take the experience of Maryland since the budget amendment was passed in 1916. At the legislative session just prior to the passage of this amendment, thirty-five or forty special appropriation bills had been passed and approved by the governor. This same thing had happened at several previous sessions, until there was a deficit in the state treasury of about a million and a half dollars. The 1918 legislature, acting under the provisions of the budget amendment, passed only seven special appropriation bills, two of which were duplicates of two others and were for that reason vetoed by the governor, another was also vetoed, and still another was reduced by half. The four bills approved by the governor carried appropriations aggregating about \$19,000.<sup>1</sup> The 1920 legislature enacted six special appropriation bills, all of which were vetoed. The governor also vetoed sixty-four highway bills which sought to impose future obligations on the treasury. The 1922 legislature enacted one special appropriation bill, carrying \$1,500, which was approved by the governor. A bill appropriating \$1,000,000 for the construction of a highway connecting the city of Baltimore with southern Maryland was also passed and approved; it was financed by bonds and provided a tax levy for redemption purposes. The 1924 legislature passed a bill providing \$25,000 for each of three years, or until the legislature met again, for the relief of disabled soldiers. It provided the revenue necessary to finance the appropriation by a small general property tax. The governor approved it. The 1927 legislature passed a bill providing \$150,000 for improvements to the state armories to be financed by a bond issue. This bill was approved by the governor. It is apparent from this experience that the evil of special appropriation bills has been reduced almost to the vanishing point in Maryland under the provisions of the budget amendment. That this could have been accomplished by other means, such as legislative rules properly observed, is quite possible. But the fact remains that some restrictions on member appropriation bills were necessary and that these restrictions had to be rather drastic to cure the condition which had developed in Maryland.

In the other states, which we have mentioned above, notably Massachusetts, the effect of the constitutional limitations on special

<sup>1</sup> The seven bills passed by the legislature appropriated unexpended funds then in the state treasury and, upon a ruling by the attorney general, were not in conflict with the provisions of the budget amendment.

appropriation bills has been quite salutary. These limitations have served to prevent legislative disregard of the budget plan, which after all is the important thing.

Congress has attempted to meet this problem of special appropriation bills in another way. It has redefined through legislative rules and regulations the authority of its standing committees in recommending appropriations. We have already discussed the consolidation, which took place at the time the national budget law was passed, of the various committees handling appropriations into a single committee on appropriations in each house. The legislative rules now require that all appropriation bills must be referred to the committees on appropriations, the other committees being forbidden to insert clauses providing for the appropriation of funds in the bills reported by them. The result is that all member appropriation bills go to one committee in each house. This committee has the authority to include such of the member proposals as it sees fit in its recommendations to the house, but in so doing it is supposed to keep in mind the financial condition of the treasury which is set forth in the President's budget. Thus the miscellaneous proposals for appropriations are in a way related to the budget plan. This would not have been possible under the old legislative procedure, when the various committees on general legislation had control not only over the authorization of projects but also over the appropriation of money to carry them out.

Recent experience indicates that the new procedure which has been inaugurated by Congress for handling member proposals for appropriations is a large improvement over the old methods. Nevertheless, local, as opposed to general, interests still persist and many projects of doubtful value are still authorized and undertaken. Apparently, further steps need to be taken. A promising advance has very recently been made in the direction of preparing a comprehensive plan of public building construction under the direction of the Secretary of the Treasury and the Postmaster General. Once such a plan is adopted, the matter of public building needs would no longer be left to the initiative of individual members of Congress. Of course, there will still be other "pork barrel" measures, such as pension bills. It was just such measures that made it necessary for President Coolidge to veto the Bursum omnibus pension bill. He took this action on the ground that adequate provisions had been made in the budget for taking care of all necessary pensions. In order to be able to meet such a situation in a more effective way, it has been suggested that the President be given the power to veto

items in an appropriation bill without, as is now the case, having to disapprove the whole measure.

*The Executive Veto of Budget Bills.*—We have already indicated in the preceding discussion that the executive veto may be an important factor in the final enactment of the budget bills. Executive approval of these bills is generally required in the national and state governments and in those cities with the mayor-council form of government. In other words, the bills do not become laws until signed by the executive, or until after a certain period elapses without action by the executive, assuming that the legislative body is still in session. There are, however, a few exceptions to this statement which will be noted later.

The authority vested in the executive to approve the budget bills usually carries with it the power of veto. But there are varying degrees in the exercise of this power. In the veto of appropriation bills, for example, the President does not have the item veto; he must either approve or veto *in toto* each bill. He cannot remove what he deems to be improper items and approve the remainder of an appropriation bill. In the constitution of the short-lived Confederacy established in 1861 there was a provision which permitted the executive to veto any particular item or items in the appropriation bill. This provision was thought to be an improvement over the federal requirement, although the collapse of the Confederacy prevented it from being tested under normal conditions. Just the same, the idea spread to the several states; a large number of them soon provided that the governor might exercise the item veto in the approval of appropriation measures.<sup>1</sup> No sooner had the governor started to use the item veto than the legislature began to make lump sum appropriations, thus making it very difficult for him to exercise this power. In Pennsylvania as early as 1885, the governor, without specific constitutional authority, began to reduce appropriation items with a view to checking what he regarded as improper itemization by the legislature. The state supreme court upheld this practice in 1901,<sup>2</sup> and thereafter it was used on a large scale. The governors of about a dozen other states attempted to reduce appropriation items, but the courts, in the absence of specific constitutional authority, generally held such action void.

When the state budgetary movement got under way, some leading budget advocates proposed that the governor should initiate the

<sup>1</sup> At the present time, more than three-fourths of the states permit the governor to use the item veto.

<sup>2</sup> See *Commonwealth vs. Barnett*, 199 Penn. 161.

expenditure requirements and that these, in the main, should not be subject to upward revision by the legislature. Since the legislature might only reduce or eliminate items in the governor's recommendations for appropriations, the executive veto was considered useless. It was to be used, if at all, in taking action on appropriation bills initiated and passed by the legislature in addition to the governor's recommendations. This proposal for a limited veto power found expression in the budgetary provisions of the New York constitution of 1915 which was defeated at the polls. It was, however, embodied in the Maryland budget amendment which was adopted in 1916. A few other states have embodied the same idea in constitutional amendments.

But the recent development of state budgetary procedure cannot be said to be in the direction of restricting the executive veto. While the budget amendments of Maryland, West Virginia and Nebraska specifically curtail the scope of the item veto, those of Massachusetts and California really enlarge it. In the latter states the governor has been given the power to reduce as well as to eliminate items in the appropriation bills. The New York budget amendment adopted in 1927 differs somewhat from the Maryland amendment in that it permits the legislature to add to the governor's appropriation bill so long as the additions are stated separately and distinctly from the original items of the bill. The added items and the appropriations of the legislature and the judiciary are subject to approval by the governor, while the remainder of the bill becomes law immediately upon passage without further action by the governor.<sup>1</sup> In more than thirty states which have statutory provisions for a budget system, the item veto as a constitutional power of the governor has not been changed by the adoption of the budgetary legislation, although it may be somewhat affected by practice.

The legislative procedure usually has much to do with the effectiveness of the executive veto. In New York, for example, the governor has ten days in which to approve bills while the legislature is still in session, but he has thirty days after adjournment. By speeding up the passage of the appropriation bills so that the legislature would be in session as long as ten days after the last bill had been passed, it would be possible for it to take action on all of the governor's vetoes and perhaps to override them if it could

<sup>1</sup> In 1929, Governor Roosevelt, acting under this constitutional provision, vetoed items in the general appropriation bill, aggregating more than \$54,000,000 or approximately a fifth of the total state budget. The legislature thereupon repassed the items, some of which he again vetoed. The matter was carried to the state courts. See below, p. 476.



muster the requisite two thirds of the members elected to each house. But this is never the case in practice; numerous special appropriation bills are usually passed during the last week and even the last day of the session. These bills then go to the governor who may sign them, vetoing certain items; or he may leave them unsigned, which is equivalent to complete veto. His action is final in this case, rather than suspensive as in the case of the ten-day bills. Several other states have similar provisions.

The degree of itemization in the appropriation bills also affects the item veto. If the appropriations are made in lump sum amounts, as we have suggested in another chapter of this book,<sup>1</sup> the item veto is practically useless. The only effective veto in this case would be one that would permit the executive to reduce as well as to eliminate items.

If the budget system is to limit the action of the legislative body to reducing or eliminating items from the executive's expenditure proposals, then the item veto seems unnecessary.<sup>2</sup> In effect, such veto will then be exercised by the legislative body. But if this limitation is not to be imposed upon the action of the legislative body in passing on the appropriations proposed by the executive (we have already stated that, in our opinion, it should not, at least, so long as the present system of government is maintained), then there is need for the executive veto power. This power should be enlarged so as to permit the reduction as well as the elimination of items of appropriation, as has been done in the budget amendments of Massachusetts and California. The executive would then have adequate means for defending his expenditure recommendations against legislative increases. Responsibility for any increase which the legislative body might make by overriding the executive veto would rest squarely upon that body and not upon the executive.

There is another type of veto which we should mention in this connection. It is not the veto by the executive of a governmental unit over the budget measures passed by the legislative body of the same unit, but the veto of these measures by superior governmental authority. This occurs in several states, notably Indiana, Iowa and New Mexico, where state officials exercise certain control over local budgeting. In Indiana the state tax commission has authority to

<sup>1</sup> See above, pp. 144-146.

<sup>2</sup> In New York City, however, where the board of aldermen can only reduce or strike out items in the appropriation bill as presented to it by the board of estimate and apportionment, the mayor has the authority to veto the action of the board of aldermen and restore the items. This leaves the board of aldermen practically powerless with respect to the fixing of appropriations for city purposes.

reduce any local budget after a hearing, upon application of ten taxpayers, in the governmental jurisdiction to which the budget applies. The Iowa state director of the budget may take similar action with respect to any local budget. In New Mexico the state tax commission is given the power to increase or reduce the budget of any local government, its authority being final. Such action is, in effect, a veto of the decisions of the local governmental authorities. When viewed in this light, it seems quite drastic; but perhaps drastic action is required to remedy the abuses in budgeting which have grown up in the local governments of some states.

**Enactment of the Budget Bills After the Fiscal Period Begins.**—While the general practice in this country is to enact the budget bills, especially the appropriation bills, before the beginning of the fiscal period to which they apply, this practice is not always followed. In several state governments, the fiscal period has been so arranged that the legislature meets in regular session following the beginning of this period.<sup>1</sup> In such cases it is impossible to enact the budget bills prior to the opening of the fiscal period. The budget bills of a number of local governments are likewise not enacted before the beginning of the fiscal year to which they apply. The local legislative bodies usually meet often enough during the year to take care of this matter, but there are other reasons. Sometimes the budget is not presented until after the year prior to the budget year is finished in order that complete data may be available and the exact condition of the treasury at the opening of the budget year may be known. Sometimes the provisions of general state law with reference to local finances make it necessary for the local legislative bodies to enact the budget bills after the budget or fiscal year has opened. In some instances, the appropriation bills are enacted before the beginning of the fiscal year while the tax and revenue measures are enacted afterwards.

So long as the budget plan has been determined upon, the enactment of the revenue measures after the beginning of the fiscal period is not a serious matter. The most that such procedure can do is to delay the collection of revenues and perhaps require temporary borrowing to meet the current bills of the governmental unit. This is particularly true in local governments where a very large part of the revenue system rests upon laws or ordinances which are annually enacted. Where the revenue system of a government is based largely upon permanent legislation, this problem of delayed

<sup>1</sup> These states are Colorado, Massachusetts, Mississippi, Missouri, Nevada, Oregon, Ohio, Rhode Island, and South Carolina.

collections due to belated legislative action would naturally not exist, at least, to any appreciable extent.

A different situation, however, exists when the appropriation bills are not enacted before the opening of the fiscal period to which they apply. Indeed, it may be a very serious situation if means are not provided through which, at least, the current costs of the government can be met during the interim between the opening of the fiscal period and the time when the appropriation acts become effective. This, of course, assumes that the appropriations are being made on the annual basis, as is the common practice in this country. Where continuing appropriations are in use, expenditures can be legally met during this interim so that deferred action on the part of the legislative body is not a serious problem.

*Methods of Meeting Current Expenses Before Appropriations are Enacted.*—There are three methods of meeting the current operating expenses of the government in the interim between the beginning of the fiscal period and the time the appropriations for that period are enacted. These methods may be briefly stated as follows: (1) to hold up the payment of all bills pending the passage of the appropriations; (2) to continue to spend at the rate authorized for the preceding year; and (3) to authorize temporary appropriations for the intervening period.

The first of these is purely a negative method; it does not even attempt to meet the problem. This method more or less prevails in three states. In Mississippi, the state auditor, in the absence of any legal provisions, holds up the payment of all bills, including salaries, until the legislature passes the appropriations for the biennial period. In 1926, for example, the general appropriations for the biennium, starting January 1, were not enacted until March 10. For a space of more than two months, therefore, no salaries or current bills were paid. In Nevada much the same situation prevails, with the exception that most salaries, under constitutional and statutory provisions, can be paid out of the general fund. Other operating expenses must await payment until the appropriations for the biennium are made. This is usually more than two months; for example, the general appropriation act for the biennium beginning January 1, 1927, was not finally approved until March 18. The situation has become so serious that an amendment to the constitution changing the fiscal year from January 1 to July 1 has been proposed and is in the course of adoption. The state of Oregon is in a similar plight. The payment of all current bills is held up except in those departments which have continuing appropriations.

In cases of great urgency, the legislature may make emergency appropriations. Otherwise, a period of about two months elapses between the beginning of the biennium and the time the general appropriation bill is enacted. During this interval a large part of the state's business goes on without any definite authorization to pay the operating expenses incurred; it could not be suspended without bringing chaos to the state government.

The second method is a positive effort to meet this situation. It is employed by four states and by Chicago, Boston, and smaller cities of Massachusetts. In Massachusetts, Rhode Island and South Carolina there is a provision in the general law which allows the state departments and agencies to expend for operating purposes at the rate authorized by the appropriations for the preceding year until such time as the legislature makes the appropriations for the current year. This provision may apply indefinitely in Massachusetts, but in Rhode Island and South Carolina there is a time limit of three months after the opening of the fiscal year, the legislature being expected to pass the general appropriations sometime within the first quarter of the fiscal year. As a rule, it is about four months after the beginning of the fiscal year before the general appropriation bill is passed by the Massachusetts legislature. Frequently, it is more than three months after the opening of the fiscal year before the legislature of Rhode Island or of South Carolina passes the general appropriation bill. However, this bill is usually enacted before the end of the fourth month so that the current expenses for that month can be met at the end of it. In Missouri, the practice is for the legislature, directly after the opening of the session, to authorize the state departments and agencies by concurrent resolution to make expenditures on the same basis as the appropriations of the preceding year.<sup>1</sup> The current expenses are taken care of in this way until the general appropriation bill is passed, which is usually about four months. The chief accounting or controlling officer of each of these state governments generally permits the departments and agencies to spend each month during the interim between the beginning of the fiscal period and the time the general appropriations are authorized approximately one twelfth of the preceding year's appropriation. This apportionment, however, is not very rigidly enforced. In Rhode Island, for example, certain

<sup>1</sup> On rare occasions Congress has passed resolutions continuing existing appropriations in force where there was a failure to pass any of the regular appropriation bills before the opening of the fiscal year.



institutions and agencies are allowed to spend each month as much as one tenth of the preceding year's appropriation, owing to increased activities during the winter months. In all cases, the general appropriations, when enacted by the legislature, cover the entire fiscal year or biennium, including the expenditures which have been made during the interim.

The fiscal year of the city of Chicago begins on January 1, and the council does not usually pass the appropriation ordinance until about the end of January or even later. In the meantime, the current expenditures of the government are met on the basis of the appropriations made for the preceding year.

In the city of Boston, the fiscal year begins on January 1, and the appropriations for this year are not made until about four months later. A state law, dating back to 1889, provides that each city department may expend prior to the authorization of appropriations "one third the entire amount appropriated for the department for the previous year." Under normal conditions this would allow the department to function for approximately the first four months of the fiscal year. The city budget must, therefore, be passed on by the council and the appropriations made by May 1 of each year. In recent years, however, the state legislature's delay in fixing the annual tax limit for the city has prevented the mayor from submitting his budget to the council until about the middle of April. This has compelled the council to act on the budget in a very short time, considering the total amount of expenditures involved, and when the council has been unable to enact the appropriations before the statutory limit was reached the departments have had temporarily to suspend payrolls and to curtail their activities. The other cities in Massachusetts are governed by a provision of the general state law, which reads as follows:

In the period after the expiration of any fiscal year and before the regular appropriations have been made by the city council, the city officers who are authorized to make expenditures may incur liabilities in carrying on the work of the several departments intrusted to them, and payments therefor shall be made from the treasury from any available funds therein, and charged against the next annual appropriation; provided, that the liabilities incurred during said interval do not exceed in any month the sums spent for similar purposes during any one month of the preceding year; and provided, further, that said officers may expend in any one month for any new officer or board lawfully created an amount not exceeding one twelfth of the estimated cost for the current year. All interest and debt falling due in said interval shall be paid.<sup>1</sup>

<sup>1</sup> Section 34, chapter 44 of the general laws of Massachusetts.

The third method is likewise a positive effort to meet the situation growing out of the failure to enact the annual appropriations until after the fiscal period has begun. This method is used by two states and the various local governments in the state of Ohio. In Colorado, the legislature makes a temporary authorization to cover operating expenses for the period between the beginning of the fiscal year on December 1 and the time when the general appropriations are passed. This temporary authorization is known as the "general short appropriation act," and covers the months of December, January, February, and March, or one third of the first fiscal year of the biennium. This act contains one third of the regular salaries for the first year and approximately one third of the other current expenses, as contained in the "general long appropriation act," which is passed later. The short appropriation act is usually approved about the first of February, or approximately two months after the fiscal year has begun. During this intervening period, the state departments and agencies have no definite appropriations upon which to operate; furthermore, they must always lack such appropriations for more than one month, since the legislature does not meet until early in January. This hiatus in expenditure authorizations, it is true, occurs only once in every two years, but this would seem to be quite often enough. The payment of all current bills is held up until the short appropriation act is passed. The general long appropriation act is usually passed by the legislature before the close of the four-months period. This act covers the whole biennium less the amounts already appropriated in the short appropriation act. As soon as it becomes effective the short appropriation act ceases to apply. It sometimes happens that the long appropriation act does not become effective for more than a month after the other one has expired. This was the case in 1927 when the long appropriation act was approved by the governor on May 2, thus producing another period of over a month during which the current expenses could not be legally met. This very unsatisfactory situation has led the governor to propose a fiscal year for the state government which would begin on July 1 instead of December 1, thus removing the necessity for the procedure now followed. To date (January, 1929), no action has been taken by the legislature on this proposal.

At the beginning of 1928 the date of opening the fiscal year of Ohio was changed from July 1 to January 1, thus necessitating the passage of the appropriations after the year has begun. In order to meet this situation a provision was inserted in the law requiring the legislature immediately after convening in regular session to pass

one or more "interim appropriation acts," authorizing the amounts necessary to be expended until the general appropriation act should take effect. These interim acts are to provide for the operating expenditures of three or four months, so as to give the legislature plenty of time to act on the regular appropriations.<sup>1</sup>

The Ohio law which changed the fiscal year of the state government also made the fiscal year of all local governments within that state cover a corresponding period. While it is possible for the local legislative bodies to pass the annual appropriation measure before the fiscal year opens on January 1, they are not required to do so by law. In case they do not pass this measure in advance, they may pass a "temporary appropriation measure" to meet the ordinary expenses of the governmental unit until a date not later than April 1. The appropriations in this temporary measure are chargeable against the appropriations in the annual measure when passed.

What can be said respecting the comparative effectiveness of the second and third methods? Under the second method, no definite authorizations to spend are made by the legislative body. The expenditures that may be incurred during the interim depend upon the amount of the preceding year's appropriation and to some extent upon the rate of expenditure during that year. The question of what expenditures can be legally met during the intervening period, is left to the judgment of the chief accounting or controlling officer of the governmental unit. The spending agencies may insist upon the payment of bills which should be carried over until the appropriations have been made. In this way it is possible for abuses to creep in, unless the practice has become well established as appears to be the case in Massachusetts. Perhaps this method is weakest in that it permits expenditures to be made upon the basis of the past year's budget rather than according to the budget plan which has been proposed for the year in progress. After expenditures have been made on such basis for three or four months, only three fourths or two thirds of the year remains to which the proposed budget can be applied.

Under the third method, definite appropriations are made by the legislative body to cover the intervening period. These appropriations are usually based upon the budget of the year in progress; in other words, they are part of the plan of expenditure which will

<sup>1</sup> The 1929 session of the Ohio legislature passed an interim appropriation bill within two weeks after convening. This bill was prepared on the basis of the appropriations for operating expenses for the first six months of the fiscal year, it being assumed that the legislature would enact the regular appropriation bill before six months of the biennium had elapsed.

later be authorized in its entirety. The main drawback to this method in American practice has been the fact that the interim appropriations are sometimes not made until after the fiscal year is in progress. This is avoided in English practice by the authorization of "votes on account." The fiscal year begins on April 1, but Parliament does not enact the regular appropriation bill until some months later. In order to meet this situation an act, known as the "Consolidated Fund (No. 1) Act," is passed a short time, perhaps only a day, before the fiscal year begins. This act contains the votes on account to meet the expenditures of the government for a definite period, usually four or five months, or until such time as Parliament has enacted the regular appropriation bill, which is called the "Appropriation Act." The votes on account are based upon the budget estimates for the year to be provided for, but they do not include any new services.<sup>1</sup>

Some will doubtless say that continuing appropriations are the answer to this problem, since the difficulty arises mainly from the annual basis of appropriating. Undoubtedly, continuing appropriations do meet the problem, but at the same time they have numerous disadvantages which the writer believes make them undesirable from the budgetary standpoint.<sup>2</sup> The real solution is to adjust the time of taking action on the budget to the fiscal year, or *vice versa*, so that the appropriations will be enacted before the year begins.

**Failure to Vote the Budget Bills.**—When the government is financed on an annual basis, failure on the part of the legislative body to vote the budget bills is a serious matter. Taxes remain unlevied for the support of the government and appropriations unauthorized for its operating expenses. This practically means the cessation of governmental activities.

A large part of our governmental revenue, as we have pointed out in a preceding chapter, is provided for by permanent legislation. Only the local governments find it necessary to levy a considerable part of their income each year, since they depend to a large extent on annual property taxes. Failure of the legislative body to pass the revenue proposals in any one year would not therefore greatly affect the income side of the budget of any of the governmental

<sup>1</sup> The *douzièmes provisoires* employed in France and Belgium are similar to the English votes on account. Stourm feels that in France the *douzièmes provisoires* are wholly the result of parliamentary disorder, or failure to pass the budget at the proper time. In Belgium, however, they seem to be part of the normal budgetary procedure.

<sup>2</sup> See above, pp. 122-127.



units, except the local governments. Even in the local governments a failure of this kind is such a rare occurrence that very few provisions for meeting it are to be found. One example may be cited from the Philadelphia charter adopted in 1919. This provision reads: "If the council shall fail to fix a tax rate on or before the fifteenth day of December of any year, the rate for the current year shall be the rate for the ensuing year as if that rate had been fixed by the council in accordance with this act. . . ."

On the expenditure side of the budget, however, the situation is quite different, since it is the common practice to support the various governmental units by annual rather than continuing appropriations. This requires the voting of appropriation bills at regular intervals, usually one or two years apart. What is to be done if the legislative body of a governmental unit for some reason or other fails to authorize the appropriations at the proper time? This has happened a few times in the case of the national government when Congress, due to a deadlock between the two houses or with the President, has failed to pass certain of the regular appropriation bills. In such event, Congress has immediately before adjournment passed a joint resolution extending the authorizations of the existing appropriation acts.

Failure to pass the regular appropriations has occurred several times in some of our state and territorial governments. This has been the result mainly of deadlocks and filibustering in the legislature. To meet this situation, the Kentucky state budget law provides that in the event the legislature fails or refuses to make appropriations for the ensuing biennium, then the appropriations of the preceding year for each of the state spending agencies shall continue until changed by the legislature. Rhode Island has another device by which the appropriations recommended in the budget are validated, rather than those of the previous year, in case the legislature fails to act. In that state, if the annual appropriation bill, prepared by the commissioner of finance under the direction of the governor, is not approved by the legislature before April 15, the commissioner of finance is required to transmit certified copies of this bill to the state treasurer and the state auditor and these officers are authorized to make expenditures according to the provisions therein contained. Should the legislature at any subsequent time take up and pass the appropriation bill, its provisions, upon approval by the governor, supersede those of the certified copy of the bill. In other words, in the event the legislature fails to take action on the appropriation bill, the annual appropriations for the support of the state govern-

ment are, in effect, not only formulated but determined by the executive. This is, to say the least of it, a novel position for the executive to assume in American budgetary practice.

In Porto Rico a few years ago the territorial legislature deadlocked and adjourned without passing the general appropriation bill. The governor of the island thereupon appealed to Congress, which happened to be in session, and an act was passed which gave the governor authority to spend from the insular treasury an amount equal to the total appropriations of the year preceding the one to which the unpassed bill applied. In order to prevent this situation from recurring, the law establishing the insular government was amended so as to provide that in case the general appropriation bill was not passed amounts equal to the appropriations for the current year should be deemed to be appropriated. A similar provision, which has been invoked on more than one occasion, is to be found in the law establishing the government of the Philippines.

Some cases have arisen in local governments where the expenditure of funds was tied up for several weeks or months on account of the failure of the legislative bodies to pass the appropriations. This has usually happened in those local units that still attempt to preserve in their governmental organization the separation of executive and legislative powers. To meet this situation, the "Model Municipal Budget Law," published by the National Municipal League in 1928, provides as follows:

If at the termination of any fiscal year, the appropriations necessary for the support of the local government for the ensuing fiscal year shall not have been made, the several amounts appropriated in the last appropriation act or ordinance for the objects and purposes therein specified, so far as the same shall relate to the operation and maintenance expenses, shall be deemed to be reappropriated for the several objects and purposes specified in said last appropriation ordinance; and until the appropriating body shall act in such behalf the treasurer or chief financial officer shall make the payments necessary for the support of the local government on the basis of the appropriations of the preceding fiscal year.

**Publicity Concerning the Budget as Adopted.**—Immediately after the budget bills have been enacted either a representative of the legislative body or the executive should issue a statement setting forth the action that has been taken on the budget. This statement should present a summary of the budget as finally approved through the passage of the budget bills, and it should compare this summary with the general budget summary in the document previously submitted to the legislative body by the budget making authority, showing the changes that have been made during

the process of discussion, revision, and approval. A written explanation of the increases and decreases which have been made either in the income side or the expenditure side of the original budget should accompany this statement. This explanation may be prepared by the chairman of the legislative committee handling the budget (where there is more than one such committee, one of the chairmen should be selected) or by the executive. This statement with the explanation should be published. The publication of such a statement is very desirable in connection with all state and local budgeting, particularly the latter.

It has recently been the practice to issue a statement of this kind setting forth the action taken by Congress upon the President's budgetary proposals. This statement is made at the close of the legislative session and is published in the *Congressional Record*.<sup>1</sup> It is usually prepared by the chairman of the House Committee on Appropriations, although the chairman of the Senate Committee on Appropriations may make a supplementary statement and the floor leader of the minority party in the House may make a rejoinder. Only the expenditure side of the budget is discussed in this way, the statement showing in tabular form with explanatory text the increases and decreases which Congress has made in the expenditure proposals of the President.

Among the state governments, a noteworthy example of such a statement is the one that was presented annually by former Governor Smith of New York. It was called a "Report to the People of the State on Its Financial Condition." It was prepared by the governor after the legislative session had ended and was handed to the leading newspapers of the state. Several of these papers were accustomed to print the statement in its entirety (it was comparatively brief, covering about half a newspaper page) and to comment on it editorially.<sup>2</sup> In this statement the governor discussed the appropriations made by the legislature for the forthcoming fiscal year beginning on July 1, paying special attention to the increases or decreases over the appropriations of the current year. He also showed the income which was available to meet the proposed expenditures, setting this forth in very simple language which could be understood generally by the citizens of the state.

*Budget Exhibits.*—The budget exhibit is a further means of stim-

<sup>1</sup> See, for example, *Congressional Record* for March 12, 1927, or June 7, 1928. Unfortunately, this statement was not issued for the session of Congress ending March 4, 1929.

<sup>2</sup> See, for example, *The New York Times*, June 8, 1928.

ulating public interest in the budget, aside from the various things which we have already referred to, such as public hearings and efforts to dramatize the legislative action on the budget. The idea of a budget exhibit originated with the New York Bureau of Municipal Research, which held such an exhibit, largely on its own initiative, in connection with the preparation of the New York City budget for 1909. In 1910 the city authorities adopted the idea and prepared a budget exhibit, which was put on for a whole month at 330 Broadway (near the City Hall) during the fall of that year when the city budget was being prepared for the next year. The board of estimate and apportionment appropriated \$25,000 to finance the exhibit; it occupied about 45,000 square feet of floor space and had some 350 booths. It was somewhat on the order of a fair. More than a million people were said to have attended the exhibit. The leading newspapers both in and out of the city generally endorsed the idea. The exhibit was again put on by the city government in 1911. Comments from two of the local newspapers indicate the scope and value of what had then come to be called "New York's Annual Budget Exhibit." The *New York Evening Sun* of October 2, 1911, said:

The big show called the *budget exhibit*, now on for a month at 330 Broadway, should prove as interesting to the chance sightseer as to the taxpayer who is anxious to learn how the city spends his money. Admission is free to all. The theory of the show is that every department of the city government must justify in the eyes of the public as well as to experts its demand for a share of the aggregate (\$200,000,000) which together they propose to spend.

Upon entering the door the first thing that attracts the eye of the spectator is an array of massive golden cubes, occupying nearly the whole front of the building. They symbolize the taxpayers' money divided according to the claims of each department. The largest block is equal in volume to the sum of all the others. Its surface is marked off into tiny squares representing units of \$10,000. Beyond, overhead and in the basement are the spaces allotted to the various departments, containing exhibits designed by each to demonstrate its needs. In every instance this is so appealingly done that the meanest taxpayer looking thereon must feel impelled to relax his fist. . . .

There are abundant features of interest in the exhibits of every department for the spectator to ferret out for himself. One of the liveliest features will be talks by various department heads in a special auditorium, who are ready to answer questions by all hecklers.

The *Brooklyn Eagle* of October 2, 1911, made this comment about the exhibit:

The budget exhibit . . . is the second which the city has given and follows the initial exhibit conducted by the Bureau of Municipal Research.



It has proved to be a valuable short cut in enabling citizens to keep track of the city government and to find out where the taxes go. With a population of 5,000,000 and a highly complex city administration eating up more than \$180,000,000 yearly and with expenses rapidly growing, no citizen can keep thoroughly acquainted with municipal affairs and conduct his own business, too. The details of official reports, even as they are condensed in the newspapers, are too voluminous for any man except a specialist on the subject to carry the outline of them in his mind. The budget exhibit, with its maps, charts and tabulations, seeks to fix the main outlines of the work in the mind pictorially, thus creating a background of general intelligence against which the citizen can follow the daily affairs of his city in his newspaper. It serves the same clarifying purpose in following the city news that a map does in reading of the Italian-Turkish war. For this reason, the people who have seen the earlier budget exhibits will be sure to visit this one. Having found a short, if not royal, road to knowledge of the affairs of their city, they are not likely to abandon it. But the attendance should be twice or thrice as large as it has ever been. Widespread knowledge of public affairs is the only basis for intelligent municipal action, and the budget exhibit is the most effective agency for spreading knowledge.

Despite the popularity of the budget exhibit, the New York City authorities have ceased to put on further exhibits. The idea, however, spread to other cities, and budget exhibits were put on in 1913 by Cincinnati, Ohio; Springfield, Massachusetts; Waterbury, Connecticut; and Ossining, New York. These were on the order of the New York City exhibit, although not so elaborate. They consisted mainly of maps, charts, photographs, diagrams, placards, samples, models, and so forth, which told the story of where the city government got its money, how it spent its money, and what the citizens got in return. The *Boston Herald* referred to these exhibits as a "great educational course in municipal economy which ought to be duplicated in every city." But unfortunately they never became permanent institutions in any of these cities, having been put on only for a year or two during the budget making season.<sup>1</sup>

That there is great need at the present time for something in the nature of budget exhibits, particularly in the local governments, seems quite apparent. Of course, it is possible now for city authorities to have motion picture films made of the more important departmental activities and to send these films around the city to be shown at the different picture theaters. A city budget might even be worked up into an interesting film through the exercise of a little artistic ability in the preparation of a series of animated pen pictures. The radio also has possibilities as a means of promoting

<sup>1</sup> The city of Cincinnati, however, revived its budget exhibit in 1928. See R. O. Beckman, "Reporting a City's Activities," *Public Management*, February, 1929.

civic education in the budget. Several cities and even states now own and operate their own broadcasting stations and can therefore put on talks with reference to the budget and budgetary procedure. The state governments, likewise the national government, may also make use of motion pictures in setting forth their varied activities and the expenditures which are required. Commercial exhibitions and shows may be taken advantage of to exhibit what the government is doing in certain fields. A booth is all that is needed in such cases; the people come to see the commercial end of the show and pause to look at the government's exhibit. The writer has seen interesting exhibits of this kind put on at commercial shows by the United States Bureau of Standards and by the New York state department of labor.

PART IV  
THE EXECUTION OF THE BUDGET





## CHAPTER XIV

### ORGANIZATION FOR EXECUTING THE BUDGET

AT THIS point, we turn to those phases of public budgeting which are essentially administrative in character. In the words of René Stourm, "From the befogged atmosphere of the legislative body where the fiscal law is devised, we enter the calmer sphere of the administration." This is the sphere in which the budget, as the financial plan of the government, is executed or carried out. Indeed, the execution of the budget is an administrative task; it cannot be satisfactorily performed except under the direction and supervision of the executive.<sup>1</sup> To attempt to carry out the budget according to any other scheme means in the end a disjointed performance, a financial plan realized, if at all, in a patchwork manner. It cannot be otherwise when numerous governmental agencies are given a free hand in the execution of the budget without central administrative control.

Since the task of carrying out the budget is necessarily an executive function, what are the essential things which the executive should have at his command in order to perform this task? They are (1) a modern and suitable administrative organization, and (2) up-to-date and effective devices and methods of administration. Below we shall discuss the administrative organization necessary to good budgeting. In the following chapters we shall outline the financial devices and methods which are essential to the execution of the budget.

**General Organization for Administering the Budget.**—What is necessary in the way of general organization for the proper execution of the budget? The first requisite is the centralization of executive authority with the establishment of definite lines of re-

<sup>1</sup> This is not a new idea in the United States, as some might think; it is as old as the *Federalist*. Alexander Hamilton in No. 72 of that great document says: "The administration of government . . . in its most usual and perhaps in its most precise signification . . . is limited to executive details, and falls peculiarly within the province of the executive department. The actual conduct of foreign negotiations, the preparatory plans of finance, the application and disbursement of the public money in conformity to the general appropriations of the legislature, the arrangement of the army and navy, the direction of the operations of war,—these, and other matters of a like nature, constitute what seems to be most properly understood by the administration of government."

sponsibility in the administration. This can best be attained under our form of government through an integrated administrative system having at its head a single executive. The second requisite is the setting up of certain financial machinery as a part of this integrated system through which the executive can direct the fiscal affairs of the government and the legislative body can maintain a check on what the executive does. We shall discuss the financial machinery in the latter part of this chapter; for the present, let us confine our attention to the administrative organization in general.

In adopting the budget system, the lawmakers of many of our state and local governments gave little or no thought to the position of the executive with respect to the various agencies of the administration. This was particularly true in the state governments where these agencies were often arranged in a haphazard and disjointed fashion, their administrative officers, in many instances, not being even remotely under executive control or supervision. Still the budget system was expected to function perfectly under such an arrangement. Although the executive might prepare a satisfactory financial plan for the legislative body under these circumstances, he could not hope to be able to enforce the plan once it had been adopted. No wonder the budget system in many of these cases has been little more than a farce; and we may expect it to continue so until real authority to execute the budget, supported by the proper kind of administrative organization, is vested in the executive.

While many state and city governments have failed thus far to set up administrative organizations which meet these requirements, others have made real progress in this direction. City governments were the first to undertake administrative reorganization on an extensive scale. Several years later state governments followed suit.

*Reconstruction of City Government.*—The movement to reconstruct city administration may be said to have started with the inauguration of the commission form of government in 1901, which was some time before budgetary methods were generally applied in this country. It was not, therefore, a conscious effort in the direction of installing these methods; rather it sprang from accident—the Galveston storm and inundation—and rapidly spread to other cities because of the crying need all over the United States for systematic and businesslike administration of municipal affairs. Within fifteen years approximately four hundred American cities adopted the commission form of government. During this time, many of those cities that retained the older mayor-council form completely remodeled it by centralizing the administrative depart-

ments and agencies under the mayor.<sup>1</sup> In 1913 the manager form of government came into vogue; it soon displaced in many cities not only the original mayor-council form, but also the commission form and the centralized or strong mayor form of government. Today, it is spreading rapidly and bids fair to become the most popular form of city government in the United States.

The commission form of government was in many respects a right about face in American organizational experience, although some regard it as being merely a return to colonial precedent. It broke with the long cherished idea of the separation of legislative and executive powers. It actually concentrated all legislative and administrative duties in the hands of a small body, usually five commissioners, elected at large by the voters of the city. From the standpoint of businesslike administration, the commission form of government had many points in its favor. It lodged authority and responsibility in a small group of men, who were constantly before the public eye; it systematized the administrative machinery of the city government, placing it under five departments (sometimes three or seven) with a commissioner at the head of each department; it recognized, for the first time, the importance of the financial activities of the city government by unifying them under one of the major departments.

But the commission form also had certain weaknesses which were clearly revealed after a couple of decades of experience with it. Perhaps the most serious one of these was the lack of centralized responsibility in the administration. Instead of one directing head there were really several, all the commissioners being equal in authority. Under this division of executive responsibility it was not only difficult to formulate the budget, but it was next to impossible to execute the financial plan in a satisfactory manner. There was no effective supervision on the part of the commissioner in charge of the financial department. The other commissioners usually refused to have the expenditure of funds in connection with their departmental work curtailed or supervised by an associate's department. The general outcome of this was that each commissioner administered his department practically free of any control by the other commissioners. While the commission form of government had greatly simplified the machinery of the city administra-

<sup>1</sup> In fact, this remodeling of the mayor-council form of city government began even before the advent of the commission form. By 1900 several cities had what was known as the "federal plan" of administrative organization. The notorious Tweed is reputed to have introduced this plan in New York City for a short period as early as 1870.

tion, it lacked a responsible head to direct the various city activities, to formulate the financial requirements in view of the needs of the city government as a whole, and to execute the budget, when adopted, through a comprehensive work program. Undoubtedly, this was one of the chief reasons for its rapid decline in popularity after 1915. This decline was doubtless hastened by the fact that the budget system had by 1915 definitely passed out of the experimental stage in this country.

The manager form of city government, as a later development, did what the commission form had failed to do, namely, it established unity in the administration. While both legislative and executive powers remained vested in a small body of elective officials, commonly known as the council, the administrative powers and duties were delegated by the council to the manager. The manager was appointed by the council and removable at its pleasure. The whole, or a large part, of the city administration was placed directly under the manager. Although the departmental arrangement of the administration closely resembled that under the commission form, there was, as a matter of fact, more flexibility to the scheme of organization. The manager was usually permitted to regroup the activities along narrower functional lines, thus increasing the number of departments to six or seven, or even more. The arrangement of the financial functions under a single department was an important feature of the manager form. In many instances, this department was more effectively organized and placed in a more commanding position with respect to the other departments than it had been under the commission form. It was, therefore, better able to enforce the fiscal regulations of the manager, particularly in the execution of the budget. In brief, the manager form provided for the centralization of administrative responsibility, which is so necessary to the effective direction of the city's business. It is largely for this reason that the manager form now enjoys such widespread popularity.

Many cities, however, were unwilling to part with the old mayor-council form of government; they still retained faith in the separation of powers idea. But they realized that something had to be done to systematize the old type of organization. This was accomplished through departmentalizing the administration and centralizing it under the direction of the mayor. This type of city organization, starting even before 1900, developed into what was later called the strong mayor plan. In the cities which adopted this plan, the mayor was in much the same position as the manager with reference to the administration; but there was this fundamental difference—the



mayor was directly responsible to the voters rather than to the city council. The policy-determining and the policy-executing functions, therefore, remained separate and independent of each other. The departmental arrangement, however, under the strong mayor plan was practically the same as that under the manager plan, the financial department occupying the key position under the mayor in the management of the city's affairs.

The commission, the manager, and the strong mayor forms represent merely the three most important types of city organization which have developed in the United States during recent years. Variations of these types are to be found in many cities. In nearly every case, however, they are less effective than the true types. Several cities still cling to the old mayor-council form of government with its decentralized administration. This form is practically obsolete so far as budgetary control is concerned.

The form of organization in the county governments is in general quite unsatisfactory from the standpoint of budgetary control. The administration is decentralized; it does not usually have even a nominal head. There is, however, some evidence in a few parts of the country of an effort to refashion the county administration and place it under a responsible officer. The trend seems to be in the direction of a county manager appointed by the legislative body or a county administrator elected by the voters. Either type would provide a satisfactory organization for the execution of the budget.

*Recent State Reorganization.*—To understand something of the situation that existed in our different state governments when the recent movement for reorganization started, we must go back to the beginning of the last quarter of the nineteenth century. At that time every state had, as it now has, a bicameral legislature. The governor was elected by the people and stood in about the same relation to the legislature as the President did to Congress. But the relation of the governor to the state administration was quite different from that of the President to the national administration. The latter presided over a more or less centralized administration while the former did not. The heads of the more important administrative departments of the state government were required by constitutional provisions to be elected by the voters, thus placing these officers on an equal footing with the governor as to the source of their authority. So far as managing the work of the state government was concerned, the governor was only one of several administrative officers. But the governor and these independent officers constituted nothing more than the mere nuclei of the state admin-

istration which later developed. During the eighties and nineties and the first decade of the twentieth century, state administrative agencies rapidly multiplied until nearly every state government actually had scores of them. The heads of some of these agencies were appointed by and responsible to the governor; others were not, being appointed in various ways, more commonly by the legislature or by independent boards. By the end of the first decade of the twentieth century, each state government not only had numerous administrative agencies, often working at cross purposes with each other, but the majority of these agencies were largely, if not completely, outside the control of the governor.

This was the situation in 1912 when the movement for the adoption of the budget system in state governments got under way. Advocates of the budget system were quick to see that it could not be made fully effective in connection with the scrambled administrative organization which existed in most of the state governments. So the movement for state administrative reorganization was started. One of the first attempts at a thorough reconstruction of state administration was made by the New York constitutional convention of 1915. In a study preparatory to the work of this convention, the New York Bureau of Municipal Research found that the administrative functions of the state government were scattered among more than one hundred and sixty offices, boards and agencies, and that these were constituted or appointed in at least sixteen different ways. The remedy proposed was to abolish these various offices, boards and agencies and to consolidate their functions into a few orderly departments under the direct control and supervision of the governor. This reorganization plan was embodied in the proposed constitution drafted by the convention. The constitution, however, was defeated at the polls, not on account of the plan but apparently for other reasons. Nevertheless, those advocating the movement for state reorganization continued with unabated zeal.

Illinois had the distinction of adopting in 1917, under the leadership of Governor Lowden, the first comprehensive plan of administrative consolidation. More than one hundred statutory administrative agencies were abolished and their functions consolidated in nine departments with single heads appointed by and responsible to the governor. The work of each department was organized under a few divisions, each directed by a single officer responsible to the departmental head. Among the most important of the new departments was the department of finance. It became the staff agency of the governor in financial management and the execution of the

budget. The Illinois plan was not as thorough-going as it might have been, owing to the fact that several constitutional officers with administrative duties remained undisturbed by the reorganization. However, the plan did place the governor in control of the statutory part of the administration and thus, to a very large extent, enabled him to direct the business of the state government.

Very soon other states followed the example set by Illinois. In 1919 Idaho and Nebraska adopted similar consolidation plans. During the same year the Massachusetts administration was completely reorganized pursuant to a constitutional amendment adopted in November, 1918. In 1921, both Ohio and Washington adopted plans similar to the Illinois plan. California also adopted a consolidation plan during this year, which was largely refashioned in 1927. Maryland provided for a consolidation of its administrative agencies in 1922. In 1923, Pennsylvania, Tennessee, and Vermont adopted administrative reorganization plans. Minnesota adopted a consolidation plan similar to that of Massachusetts in 1925. During the same year, South Dakota provided for a partial consolidation of its administrative agencies. New York made a thorough reorganization of its administration on January 1, 1927, which was provided for through a constitutional amendment voted in November, 1925. Virginia adopted a plan of consolidation in 1927, which included most of the administrative agencies.<sup>1</sup>

All the fifteen states mentioned above have adopted their reorganization plans by statutory means, except Massachusetts and New York. The constitutional officers and agencies, therefore, have been largely unaffected by the consolidations. Even in Massachusetts, the constitutional officers remain elective, although they are made heads of departments under the reorganized administration. The New York constitutional amendment, however, went further in the direction of centralizing the administration. It abolished three independent elective officials, namely, the secretary of state, the state treasurer, and the state engineer. Among the administrative heads of departments only the attorney general and the state comptroller remained as constitutional elective officials like the governor. The administrative functions of the state government were consolidated into eighteen departments, fourteen of which were made directly responsible to the governor. The New York consolidation was the most far-reaching of all the state reorganization plans, although, as

<sup>1</sup> For a detailed description of these state reorganization plans, see the writer's pamphlet, *Administrative Consolidation in State Governments*, 4th edition, January, 1928, published by the National Municipal League.

we shall point out later, it was rather weak on financial structure. The Tennessee plan, however, was perhaps the most thorough-going of all the statutory plans. This was due to the fact that there were very few constitutional provisions which stood in the way of a complete reorganization. Such provisions as did exist largely affected the financial functions and their arrangement in the reorganized plan. In the other states where statutory reorganization plans have been adopted, constitutional provisions have usually imposed rather serious limitations upon the comprehensiveness of these plans. Aside from such limitations, some states have not gone as far as they might have in the direction of complete consolidation on account of political or other considerations. On the whole, the state governments which have reorganized their administrative structures have made possible more effective budgeting, especially from the standpoint of the execution of the budget.

*Proposals for Improvement of the National Administration.*—For nearly a hundred years after the establishment of the national government, it was the policy of Congress to place all the functions that were added to the administration from time to time under a few large departments the heads of which constituted the President's cabinet. This policy was rather consistently followed until 1883, when the Civil Service Commission was created and set up as an independent agency. Four years later the Interstate Commerce Commission was established on the same basis. From time to time, other agencies were established independently of the ten major departments. There are now more than twenty such agencies which are, in most cases, responsible either to the President or to Congress.

For several years, in fact, since the time of President Roosevelt, the national administration has been the subject of numerous investigations and reports. President Taft's Commission on Economy and Efficiency made a careful analysis of the administrative structure and recommended the regrouping of many functions, the elimination of duplicating activities, the integration of nearly all functions in certain major departments, and the establishment of clear lines of responsibility from the President through the department heads to the various subordinate officers. No action was taken by Congress on these recommendations. In 1921, however, the national budget and accounting act was passed, creating the Bureau of the Budget and the General Accounting Office. During the same year a congressional joint committee on the reorganization of the government departments was established. This committee prepared and published in 1923 a scheme of reorganization for the national



administration. It proposed to consolidate the War and Navy departments into a Department of National Defense and to establish a new Department of Education and Welfare, besides shifting a number of bureaus and agencies among the various departments. President Coolidge approved the main features of this plan, except the union of the War and Navy departments, and laid the proposal before Congress in December, 1923. Several bills, relating to this proposal, were later introduced in Congress, but no definite action has yet been taken.<sup>1</sup>

The national administration continues, therefore, with many misplaced bureaus and agencies in the several departments, with several services which should be integrated, and with numerous detached boards, commissions, and officers. From the standpoint of the administration as a whole, the machinery of organization could undoubtedly be made much more effective than it is at the present time. If this were done, it would be a great aid to the President and his staff agency, the Bureau of the Budget, in executing the national budget.

**Financial Machinery for Carrying Out the Budget.**—We have already indicated that the financial machinery of any government, if it is to serve the purposes of budgetary administration and control, must be so constituted and organized as to meet two requirements. In the first place, it must enable the executive, broadly speaking, to direct the fiscal affairs of the government. That is, it must serve as his agency of financial control and information with respect both to the income and the outgo of the government. In the second place, it must provide the means whereby the legislative body will have a check on the performances of the executive and the administration. This second requirement is just as essential from the budgetary standpoint as the first.<sup>2</sup>

It is well for us to note in the beginning of this discussion some of the evolutionary aspects of financial structure, particularly with reference to city and state governments. At the opening of the twentieth century each city government usually had several officials concerned with the administration of its financial affairs. The more important of these officials were the collector, the treasurer, and the auditor or the controller. They were usually chosen in such manner as to give them each an independent status in the city admin-

<sup>1</sup> The Institute for Government Research also made certain recommendations, several of which were embodied in the proposal which President Coolidge approved. See W. F. Willoughby, *The Reorganization of the Administrative Branch of the National Government*, 1923, Chapter III.

<sup>2</sup> See Chapter XVII.

istration. The city executive was generally without any authority to supervise their work or to require information from them which would aid in financial management. In fact, there was no such thing as financial management in those days. Attention was concentrated solely on the establishment of certain checks and balances which would prevent the illegal spending of city funds. This was accomplished through having several independent officials to watch each other. Even so, they were able to detect only the gross violations of fiscal provisions, so crude were their records in most cases. The development of information which would serve as a basis for systematic financial administration was practically impossible under this arrangement.

The different state governments had much the same kind of financial structure as the city governments. They each had a treasurer, and a controller or an auditor (sometimes both). These officers were independent of the governor, being elected by the people or appointed by the legislature. Sometimes the governor had a fiscal officer, called the state accountant or administrative auditor, whom he appointed. The same idea of checks and balances, with the emphasis on preventing illegal expenditures, prevailed in the states as in the cities. The financial records were usually poor, and there was no attempt to furnish information which would aid the governor in administering such parts of the state's finances as came under his jurisdiction.

The first attempt to refashion the financial structure was made in city governments. It was part of the larger movement for administrative reorganization, which we have already discussed in this chapter. The financial agencies were first brought together and departmentalized under the commission form of city government. The department of finance, headed by a commissioner, became one of the important city departments. In many cases, however, this department was nothing more than a grouping of the independent fiscal agencies which had previously existed; their methods of control remained unchanged. The head of the department did not usually exercise any extended powers of financial supervision over the other commissioners. As we have already pointed out, this was very difficult to bring about under the commission form of city government.

The first real progress in municipal financial organization was made when the strong mayor and the manager forms of city government came into existence. It was at this time that the department of finance became an agency of the executive and was placed in a

commanding position in the general administrative structure. For example, the city charter of Cleveland, Ohio, which was adopted in 1913, established a strong mayor form of government and organized the administrative functions under seven departments, one of which was the department of finance. Practically the same financial structure was continued in this city when the manager form of government superseded the other form in 1923. After 1913, many other city governments, in adopting either the strong mayor or the manager form, provided for a centralized department of finance. This department became the chief administrator's staff agency in the conduct of the city's business. No longer was the financial work confined merely to preventing illegal payments from city funds; it was extended to everyday supervision and management of municipal finances. Budgetary planning and control could then be realized in its fullest sense.

After several city governments had operated for some time with the centralized department of finance, the idea of such a fiscal arrangement began to find support in connection with the state governments. Prior to this time several states had adopted legal provisions for a budget, but they soon found that adequate machinery for enforcing budgetary control was lacking. The independent fiscal officers did not provide either the information or the staff service which the governor needed for this purpose. Some states created boards of control, consisting of members appointed by the governor, serving *ex officio*, or both, but these boards were generally limited in their authority and, in most instances, proved to be rather poor agencies in the execution of the budget. It was, therefore, proposed that a department of finance be created which would operate under a single head appointed by the governor and subject to the latter's direction. This idea was first embodied in the Illinois state reorganization plan which, as we have pointed out above, was adopted in 1917. The department of finance, being created by statute, was somewhat limited in its scope and authority by certain constitutional officers. Of this, we shall say more later. Other states then took up the idea and several have since established departments of finance. None of these departments, however, has been as thoroughly integrated as the city finance departments, owing largely to constitutional provisions which in most states have remained unchanged.

*Financial Organization in City Governments.*—In discussing briefly the existing financial organization of city governments, we shall confine our attention to those forms which aid in the satisfac-

tory execution of the budget. This practically eliminates the decentralized forms of financial organization which are still to be found in many cities. Separate fiscal agencies, independent of each other, under board supervision, or even under executive supervision, are generally unsatisfactory from the standpoint of budgetary administration and control. The reasons for this are obvious, especially in view of what we have already said in the early part of this chapter. The proper kind of financial organization for the execution of the budget is one which integrates the fiscal functions, placing them under executive direction. The most advanced type of this kind of organization is undoubtedly the department of finance.<sup>1</sup>

City governments which have not completely integrated their financial functions in a single department have, in some instances, established a special budget agency under the executive. Such agency is to be found, for example, in New York City, Boston, and Detroit.<sup>2</sup> In each case a single officer, appointed by the mayor, is at the head of this agency. But the duties of such officer relate mainly to the preparation of the budget. In connection with the execution of the budget, his chief function is one of investigation and reporting, although he may approve certain revisions which are made in the budget during the year. The city executive must look to other offices or departments for the accounting information which is so necessary to the current administration of the budget. Of course, the budget officer may have ready access to this information and may summarize and report it periodically to the executive, but this arrangement cannot be as satisfactory from the budgetary standpoint as the integrated organization which produces such information in the course of its operation and speedily enough to be of maximum value to the executive. While the special budget agency under the direction of the executive is a valuable adjunct to the financial organization of a city government, it cannot be regarded as a substitute for the larger department of finance. It is merely a step in this direction.

The unified department of finance has already been shown by experience to be particularly effective in city administration. It provides the executive with the kind of financial organization which he needs for the execution of the budget,—a closely integrated structure under a single officer who is responsible directly to the executive. This officer is the executive's financial adviser in all budgetary matters. He is responsible for directing the routine

<sup>1</sup> See *Municipal Finance*, by A. E. Buck and others, 1926, Chapter II.

<sup>2</sup> See above, pp. 297-298.



work of administering the fiscal affairs of the city government. This work is generally organized under certain bureaus, namely, accounts, treasury, taxation and assessments, and purchasing. These bureaus are directed by single officers usually appointed by the head of the department. The bureau of accounts keeps the general accounts of the city government, exercises current auditing control over all receipts and all expenditures, compiles the data for the preparation of the budget, supplies the accounting information for execution of the budget, and prepares all general financial statements. This bureau also prescribes the subsidiary accounts, including cost records, which may be kept in the different departments and institutions of the government. The bureau of the treasury collects, keeps, and pays out the funds of the city government, all payments being made only upon the authority of the head of the bureau of accounts. The bureau of taxation is responsible for the assessment of property, the taxing of businesses, and the determination of benefits and privileges, in so far as authority in these matters has been delegated to the city government. The bureau of purchasing buys the supplies, materials, equipment, and certain contractual services for the various departments and agencies of the city government. Typical examples of the department of finance, organized in just this manner, are to be found in the city governments of Cleveland, Rochester, and Toledo.

There may be a budget bureau in the department of finance which is charged with the preparation of the budget, the scrutiny and approval of administrative work programs and allotments, and the investigation of departmental and institutional services. In the smaller cities, however, this work can very well be done under the immediate direction of the head of the department of finance with the assistance of the bureau of accounts. A bureau of personnel may also be added to the department of finance, its duty being to regulate city employment, classify positions, standardize salaries, and supervise the administration of pension funds. This personnel work is frequently done in part by a local civil service commission which is independent of the financial functions. Even under such an arrangement, the commission should coöperate with the department of finance in approving the city payrolls.

Aside from the department of finance, which is the executive's staff agency in managing the finances of the city government, there is need for another financial agency, representing the city council. This latter agency should perform the independent audit of the accounts kept by the administration. Such audit assures the council

that the accounts are being properly kept and that all the financial transactions are regular. It may be made by a permanent auditor, appointed by the council, or by certified public accountants retained by the council. Of this, we shall have more to say in the last chapter.

Local governments, aside from city governments, have, as a general rule, made very little progress toward the establishment of a finance department or agency, such as we have described above. In county governments, for example, the financial functions are still divided among more or less independent officials, as was the case in city governments many years ago. County governments are not only without an integrated financial organization, but they also lack a chief executive or administrator. The absence of the latter is a serious defect from the standpoint of executing the budget.

*Financial Organization in State Governments.*—Turning to the state governments, we find types of financial organization which parallel those of the city governments. More than a dozen states have established budget bureaus, divisions, or offices, which are, in most instances, headed by single officers appointed by and working under the direction of the governor.<sup>1</sup> These officers usually give most of their time to the collection of financial data and the preparation of the budget for the governor. In a few instances, they are concerned with some phases of the execution of the budget, such as the allotment of the appropriations prior to expenditure. They are, generally speaking, nothing more than advisory or reporting agents to the governor; in no case do they maintain accounts through which budgetary control may be established. Such accounts are to be found in the independent office of the state controller or auditor. Hence, for the accounting control and the financial information so necessary to the administration of the budget, the governor must rely not upon an officer or department under his own supervision, but upon an independent agent. Even under the recent constitutional reorganization of the state government of New York, this is the case. There is in the executive department a division of the budget, under a director appointed by the governor, which prepares the budget and conducts certain investigations. The state treasury is also under the supervision of the governor. But the general and controlling accounts of the state government are kept in the department of audit and control, which is directed by the independent elective comptroller. The main source of the governor's information for fiscal management and budgetary administration is, therefore,

<sup>1</sup> See above, pp. 296-297.

outside his control or supervision. This arrangement is in accordance with the recommendations of the special commission which drafted the New York state reorganization plan.

Several states have gone a step further and have established departments of finance.<sup>1</sup> The sponsors of these departments maintain that they are preferable to budget bureaus or divisions directly under the governor. Since the head of the department of finance has cabinet rank, a better type of individual can be induced to take the office. Furthermore, if the governor wishes to use the office as a political reward, he can do so more easily when it is a bureau or division head than when it is a regular department head. In the latter case, at least, some competency is expected.

Having decided to establish a major department of the state government to serve the governor in budgetary administration, the question then arises as to what should be the extent of this department's powers with respect to actual financial control. Should it maintain only supervision with no direct control, or should it exercise direct control through a system of accounts which provides for the preaudit of all expenditures?

In outlining the powers of the Pennsylvania department of state and finance which was created in 1923 under Governor Pinchot's general reorganization plan, the stand was taken that it should not attempt the preaudit of expenditures. Clyde L. King, who served as head of this department during the four years of the Pinchot administration, asserted that, in his opinion, "the preaudit plan destroys departmental autonomy, overburdens the finance office, and accomplishes no purpose not accomplished by good budget control." It may, however, be doubted that "good budget control" can be established without some kind of preaudit. But the Pennsylvania department during its brief career (its fiscal functions were transferred in 1927 to a budget bureau under the governor's office) relied entirely for its budgetary control upon monthly reports from the various departments. The audit of all bills prior to their payment was performed by the elective auditor general's office. This audit was confined mainly to a determination of whether or not the bills were legally within the appropriations. The departments were left entirely upon their own responsibility in observing the budgetary allotments. They merely reported to the department of state and finance what they had done after it was an accomplished fact.

The Pennsylvania scheme, however, has not been generally accepted. With the possible exception of the Washington state depart-

<sup>1</sup> See above, pp. 291-295.

ment of efficiency, the departments of finance are generally given the power of preaudit over all or most of the state expenditures. In order to exercise this power, certain general and controlling accounts are maintained and bills are approved for payment; such audit usually establishes the fact that the proposed expenditures are within the budgetary allotments. This power of preaudit was first given to the Illinois department of finance, created by the state reorganization of 1917. It was also vested in the departments of finance subsequently established in California, Minnesota, Nebraska, Ohio, Tennessee, and Vermont. In each of these cases, however, the audit of bills to ascertain the legality of the expenditures is performed by the independent auditor or controller before payment. That is, the preaudit is performed twice; first, from the budgetary standpoint by the department of finance, and, second, from the legal standpoint by the accounting officer who is independent of the administration. To a large extent, this procedure requires a duplication of accounts. This is avoided in the organization of the Massachusetts department of administration and the Virginia department of finance. The general accounts of the state government are centralized in these departments under a comptroller; the preaudit of bills is, therefore, made at one time with respect both to the budgetary and the legal requirements. There is an independent auditor in each of these states who reports to the legislature, but he does not maintain a set of accounts.<sup>1</sup>

Another point which was stressed, particularly in connection with the establishment of the Illinois department of finance, was the supervisory character of the work. It was argued that the department of finance ought not to be a spending agency in the sense of being engaged in the performance of governmental services. This idea was rather narrowly applied in the case of the Illinois department of finance. With the exception of the editing of departmental reports, its powers are strictly those of budgetary planning and control. It has none of the broader powers of financial supervision, such as those relating to the purchasing of commodities, the collection and custody of funds, the assessment and regulation of taxes, and the employment of personnel. In other words, the Illinois department has nothing like the scope of the city departments of finance, which we have described above.

The recent trend, however, seems to be decidedly in the direction of extending the scope of the state departments of finance beyond that of the Illinois department. All of these departments, except

<sup>1</sup> See below, p. 566.



the Washington department of efficiency, have broader powers of financial administration. They include such functions as general purchasing, personnel supervision, regulation of taxation, accounting control, collection and custody of moneys, as well as budgeting. In one or two instances, functions are included which are not of a financial character. The Vermont department of finance, for example, has the regulation of banking and insurance companies. Again, the Idaho department of finance is such only in name; it has practically no functions relating to financial administration or control.

Nearly all state departments of finance are handicapped by the fact that they are statutory creations. Their financial powers are limited by the extent to which such powers are granted by constitutional provisions to other agencies. Usually there is a chief controlling or auditing officer and a treasurer provided for by the constitution. Under such circumstances the work of the department of finance must be limited by the exclusion of the functions of these constitutional agencies. This frequently accounts for the narrow scope or the overlapping activities of the department of finance. In this respect, the city departments of finance may be fashioned with much greater freedom. Even in those states where constitutional changes have been made, notably, Massachusetts and Virginia, the financial organization has not been greatly simplified. The Massachusetts department of administration has at its head a commission of four members, who are not completely responsible to the governor since they are appointed by him with the consent of the council (an independent elective body) for overlapping terms of four years. The collection and custody of funds is outside the department, being under the elective treasurer and receiver general. The Virginia department of finance is without a single head to coördinate the work of its four divisions, namely, accounts and control, the treasury, purchase and printing, and motor vehicles. The governor appoints the head of each one of these divisions. The department has no personnel supervision as in the case of the Massachusetts department, but it does include the collection and custody of state funds. The budget bureau or division, however, is placed directly under the governor's office, instead of in the department as in Massachusetts. But there is a close similarity between the two departments in the exercise of the centralized accounting, controlling, and purchasing functions. The licensing of motor vehicles in the Virginia department of finance has been placed elsewhere in the Massachusetts scheme of organization.

The independent audit, as a check on financial administration,

has not received much attention in state governments. In only two states have the general accounts of the government been placed under the governor and provisions made for the audit of these accounts by an officer independent of the administration. These states, as we have noted above, are Massachusetts and Virginia. The former state has an auditor elected by the people; the latter has one appointed by the legislature. Neither of these officers keeps any accounts, but each is required to audit periodically the accounts kept by the administration and report his findings. In the other forty-six states, there is, in this sense, no independent audit. The officer, who is supposed to perform this audit, frequently maintains the general accounts for the administration. Whatever audit he makes is, therefore, an audit of his own accounts. While this officer is independent of the executive, being elected by the people or appointed by the legislature, his audit cannot be said to be independent in that it is an examination by an outside agency of the accounts kept by the administration. This situation has given rise to decentralized or departmental accounting of a general character in many state governments, since otherwise the administration lacks assurance that the accounts are being accurately and properly kept. The procedure has, therefore, become reversed, the administration attempting to check on the independent accounting officer rather than the other way round. There is also another reason for this decentralized accounting in the administration. It is the only method the administrative departments have of producing the financial information which they require, when such information is not provided by the general accounts under the independent officer. But this method is thoroughly unsatisfactory from the point of view of general administration. Undoubtedly the centralization of the general accounts in an office or department under the administration, preferably a department of finance, with an audit of these accounts by an independent agent representing the legislature, is the most progressive form of state financial organization thus far developed from the standpoint of budgeting.

*Financial Organization of the National Government.*—Prior to 1921 the financial machinery of the national government consisted of the Treasury Department (that is, certain bureaus and divisions of this department) and the departmental accounting offices and disbursing agencies. The Treasury Department, through certain of its offices, collected the major part of the government's revenues, such as income taxes and customs. It also had the custody and management of the government's funds and the payment of the

principal and interest on the public debt. It maintained a Division of Bookkeeping and Warrants, which authorized expenditures to be made by the departmental disbursing agencies from the appropriations granted by Congress. It conducted an audit of the departmental accounting offices, the Comptroller of the Treasury and six auditors for the departments being in charge of this work. There was no central accounting system; all the large departments and establishments maintained separate accounting offices. Besides, they usually received from the Treasury Department warrants drawn on the moneys appropriated to them by Congress, which they in turn disbursed through agencies responsible to them.

In 1921 this machinery was considerably modified by the passage of the budget and accounting act, to which we have already had occasion to refer several times. This act created the Bureau of the Budget to serve as a staff agency to the President in the preparation of the budget.<sup>1</sup> It also created the General Accounting Office as an independent establishment of the government. It placed this office under the direction of the Comptroller who is responsible only to Congress.<sup>2</sup> The functions of the Comptroller of the Treasury and the six auditors for the departments were transferred to the General Accounting Office. Part of the work of the Division of Bookkeeping and Warrants was also transferred. The remainder of the previously existing structure was practically untouched.

The budget and accounting act grants the Comptroller General, as head of the General Accounting Office, rather broad powers in respect to fiscal control. He is given authority finally to settle all claims for or against the government, to exercise general control over treasury receipts and issues, and to supervise the establishment of a central accounting system. As yet, it may be said that none of his functions has been properly developed; in fact, some of them are not even clearly defined. This situation has brought forth from some quarters, particularly from several of the spending departments and agencies, severe criticism of the work of his office. In a number of cases, it has even led to court action.

At the present time, the information for currently administering the budget is furnished through the various departmental accounting offices, which were in existence before the creation of the General Accounting Office. These offices perform the administrative audit, that is, they pass on the departmental claims before payment. They maintain accounts covering the financial operations of the departments; they report on apportionments or allotments of appropria-

<sup>1</sup> See above, pp. 295-296.

<sup>2</sup> See below, pp. 552-556.

tions to the Bureau of the Budget; they gather and classify the data required in the preparation of the budget. In some respects their work is duplicated by the General Accounting Office.

The present trend of development indicates that eventually a complete set of general accounts will be installed in the General Accounting Office; in fact, the title of this office signifies as much. Subsidiary accounts will then be kept in the departmental accounting offices. Under this arrangement, the executive will have to depend largely upon the departmental accounting offices to report the information which is necessary for the execution of the budget. It is doubtful if information of the proper character can be produced expeditiously enough by this method to serve the current purposes of budgetary administration and control. Such information would presumably be brought together in the Bureau of the Budget, which, at the present time, has no legal authority to check or control the expenditures of the departments and agencies of the government. This is not saying that the Bureau of the Budget has not wielded considerable power in the financial management of the various departments and agencies, for it has. But this power has been due, in no small degree, to the personality of the men who have been at its head. During the first year of its existence, the Bureau of the Budget was under the direction of General Charles G. Dawes, who, on account of his strong language and unusual energy, did much to establish it in the popular favor and to extend its sphere of influence in the national government. His successor, General Herbert M. Lord, has since carried on the work of the Bureau in such a manner as to add weight and importance to each budget document submitted to Congress.<sup>1</sup> However, the Bureau of the Budget is still far from being an effective agency of general administration, such as the English Treasury Department, or even the departments of finance in certain of our state governments.

There is a genuine need in the national government, it appears, for the centralization of the financial functions of the administration in the Treasury Department. In so doing, the work of this department should be limited to those functions which are strictly financial in character, removing from it such extraneous activities as the Public Health Service. Provisions should be made for the exercise of real budgetary control through the Treasury Department, leaving to the Comptroller General's office the function of independent audit. The central accounting system of the government should

<sup>1</sup> General Lord resigned in June, 1929, and was succeeded by Colonel James C. Roop, who was assistant director of the budget under General Dawes.



be maintained by the Treasury Department. Under this arrangement, the Comptroller General's office would not be placed in the position of auditing its own accounts. The Treasury Department should also include general supervision over the employment and regulation of personnel and over the purchasing of matériel. Certain existing functions, such as the investigational work of the Bureau of Efficiency, might very well be brought into this department.

The creation of a new department or service—a Service of General Administration—has been recently proposed.<sup>1</sup> It is the opinion of those who are supporting this proposal that the functions of budgeting, personnel supervision, purchasing, and departmental investigation should be in a department separate from the Treasury Department. If Congress should look with favor upon this proposal and create such department, it would become the chief administrative agency of the President in the management of governmental finances. The Treasury Department would then be merely an agency for the collection, custody, and disbursement of moneys.

<sup>1</sup> Plan presented to President Hoover by W. F. Willoughby and Luther Steward, published in *The United States Daily*, April 10, 1929.

## CHAPTER XV

### MAINTAINING THE BUDGETARY BALANCE

IN THE earlier parts of this book emphasis has been laid on the fact that the budget, as formulated by the budget maker and as adopted by the legislative body, should present a *balanced* plan for financing the government. But this is not all. The equilibrium of this plan, as between income and outgo, should be maintained during the entire period of its execution. If this is not done, the budget will fail in a large measure to accomplish its purpose, which is to produce stability in the government's finances by making both ends meet.

The maintenance of budgetary equipoise throughout the fiscal period presupposes unified financial direction. This condition, as we have pointed out in the previous chapter, does not result when separate departments and agencies of the government work independently of each other and without any central supervision. It is brought about by fashioning the governmental structure so as to make the executive fully responsible for the direction and supervision of the administration and by providing him with a special department or agency for the exercise of general financial control.

Assuming that this has been done, what are the devices which enable the executive to maintain the budgetary balance? They are mainly two: (1) current planning and definite allotment of authorized expenditures, and (2) careful scheduling of anticipated income. The application of these devices in conducting the finances of the government should occupy a large part of the executive's attention from the time the budget is approved by the legislative body to the end of the fiscal period, or until the financial plan is finally and completely realized.

Preliminary to taking up current planning and allotment as applied to expenditures, let us again discuss appropriations, this time from the angle of executing the budget.

**A Necessary Conception of Appropriations.**—We have already defined appropriations as being authorizations to spend public moneys as specified, that is, according to the stipulations of the legislative body.<sup>1</sup> We were then speaking of appropriations mainly from

<sup>1</sup> See above, p. 115.

the legislative point of view. Now that we are approaching the subject from the administrative point of view, it becomes necessary to rephrase our definition—not to change it, but to amplify it with respect to the execution of the budget. And this is what we have: appropriations are *authorizations to spend* which require executive sanction before the expenditures can actually be made.

Unless we accept this definition of appropriations, the executive cannot exercise real budgetary control; his responsibility is at once limited merely to seeing that the legal requirements are observed by the spending departments and agencies of the government. All appropriations then become, in effect, mandatory charges on the public treasury. They are *grants to spend* made by the legislative body which cannot be limited or curtailed in any way by executive action, except as expressly stated in the law. No matter what situation may confront the government or what condition may develop in its finances during the budget period, the maximum amounts which have been appropriated can be expended by the various spending authorities. It is purely a matter of discretion with them; if they wish to spend the entire appropriation (and they always do), there is no administrative means of preventing them from doing it.

This notion of appropriations, namely, that they are grants to spend without executive supervision, has generally prevailed in the United States until quite recently. It is, as a matter of fact, still widely accepted in actual practice. But a marked change in this regard has been taking place during the past ten years. This is largely due to the movement for administrative reorganization in state and local governments, which we have briefly described in the preceding chapter. As this movement has progressed, it has become more and more apparent that the expenditure of appropriations should be made subject to the supervision and direction of the executive. Only in this way can the executive really carry out the budget, or manage in an effective manner the financial affairs of the government.

If we turn to English practice, we find ample support for executive control and supervision. For many decades the appropriations made by Parliament have not granted spending authority directly to the agencies of the government. These agencies must have the approval of the Treasury Department before they can expend the appropriations which have been made available. Since the Premier, acting through the Chancellor of the Exchequer, is in charge of the Treasury, the approval of proposed expenditures is an executive matter. If the executive finds, during the fiscal year, that certain unexpected demands have arisen, or that the anticipated income of

the government is not going to be realized, he can readjust the expenditure program so as to meet these situations. He can also bring about retrenchment in the spending of the authorized appropriations when conditions show that it is warranted. He has the authority in supervising the operations of the government to preserve at all times the proper balance between income and outgo. This system actually makes the executive responsible for the execution, as well as the formulation, of the budget.

The national government of the United States, however, has long held to the idea that appropriations are direct grants to the spending agencies, constituting treasury credits which these agencies may draw upon without further authorization. This idea was not changed with the adoption of the budget system in 1921. The President was given no legal authority, either directly or through the Bureau of the Budget, to control or supervise the expenditure of appropriations. Certain administrative devices, however, have been adopted in an attempt to meet indirectly this need for genuine budgetary control. One of these is the semiannual meetings of the "Business Organization of the Government." At these meetings the department heads and bureau chiefs are assembled to listen to addresses by the President and the Director of the Budget. They are admonished to keep within the appropriations granted by Congress and to make all possible savings, no matter how small, in the operating costs of their departments and bureaus. A number of so-called "clubs" have been established by the Director of the Budget as another device for bringing about minor economies in the expenditure of funds. A third device is the creation of certain coördinating agencies which work in connection with the different departments, principally the War and Navy departments, under the direction of the Bureau of the Budget, their purpose being to bring about co-operation between the departments and bureaus in carrying on their administrative work, more especially in the use and disposition of surplus supplies and materials. A fourth device is a method for allotting or apportioning the appropriations, which was originally provided for under the so-called anti-deficiency act of 1906. This device is the only one of the four which may be said to embody even the rudimentary beginnings of real budgetary control. We shall discuss these devices later.<sup>1</sup>

Until about a decade ago, the appropriations made by the various state legislatures were generally considered to be grants expendable by the agencies to which they were made without any direction on

<sup>1</sup> See below, pp. 464-469 and 545-549.



the part of the governor. Illinois was the first state definitely to break away from this idea. In the civil administrative code of 1917, which reorganized the state administration, there was written this provision: "Each department shall, before an appropriation to such department becomes available for expenditure, prepare and submit to the department of finance an estimate of the amount required for each activity to be carried on, and accounts shall be kept and reports rendered showing the expenditures for each such purpose." While this provision does not expressly state that the approval of the governor or his fiscal agency, the department of finance, is required before each department can proceed to expend its appropriations after filing the "estimate," such procedure is understood. This is evident from another provision which gives the department of finance the power "to examine and approve, or disapprove, vouchers, bills, and claims of the several departments, and such as are by law made subject to the approval of the governor, and no voucher, bill or claim of any department shall be allowed without its approval and certificate." Several other states, notably, Nebraska, Ohio, Tennessee, Minnesota, Pennsylvania, North Carolina, and Virginia, have since adopted similar provisions. However, the function of preaudit is not performed by the department of finance or other budgetary agency in either Pennsylvania or North Carolina. The Pennsylvania administrative code of 1923 provides that each state spending agency, other than certain elective officers, must furnish the governor, through the budget officer, for approval or disapproval "an estimate of the amount of money required for each activity or function to be carried on . . . during the ensuing month, quarter, or such other period as the governor may prescribe. If such estimate does not meet with the approval of the governor, it shall be revised in accordance with the governor's desires and resubmitted for approval. After the approval of any such estimate, it shall be unlawful for the department, board, or commission to expend any appropriation, or part thereof, except in accordance with such estimate, unless the same be revised with the approval of the governor." Each spending agency is required to enforce the expenditure plan as approved by the governor, merely reporting to the governor at monthly intervals as to the relation between allocation and actual expenditure. A similar procedure is followed in North Carolina. We shall discuss the provisions of these states more in detail in the subsequent sections of this chapter. All told, less than a fourth of the states have thus far made any provisions looking toward executive direction or supervision over the expenditure of appropriations. In the other

three fourths of the states, appropriations are still viewed in very much the same light as they are in the national government.

The large majority of our local governments still regard appropriations as direct grants to the spending agencies. Only in certain cities, principally those with the manager form of government, has the expenditure of appropriations been made subject to the direction and supervision of the chief executive or administrative officer. Of this, we shall say more later.

No centralized budgetary control over expenditures, it seems, is possible unless we assume that appropriations are merely authorizations fixing the maximum amounts which may be expended subject to executive direction and supervision. We shall, therefore, proceed on this assumption in the subsequent discussion.

**Current Planning and Allotment of Expenditures.**—There are three necessary features to the proper control over the expenditure side of the budget. These are as follows: (1) the planning of the work to be done, which involves the setting up of a work program by each spending unit or agency; (2) the determination of the rate of outgo on the basis of the work program, that is, the allocation of the expenditure requirements to the months or quarters of the budget year or period; and (3) the adjustment of discrepancies between the authorized and actual expenditures. Before taking up for discussion each of these features of budgetary control over expenditures, it may be well to set forth by way of contrast some of the current practices which have to do with the supervision of expenditures.

In most of our governmental units, such supervision as is exercised over expenditures involves three agencies, namely, the legislative body, the spending authorities, and an independent accounting officer. The chief executive or administrative officer does not figure, except perhaps indirectly, in this supervision. The legislative body in making the appropriations to the spending authorities usually sets them up in itemized form. This itemization is an attempt to establish, in the absence of administrative direction, some control over the expenditure of appropriations. While the legislative body has the power to provide this method of control, it is now generally considered to be unsatisfactory, particularly from the administrative standpoint. The fact is that it really hinders good administration, since the spending authorities are told many months in advance exactly how they must use the appropriations.<sup>1</sup> There is little or no leeway for the exercise of administrative discretion in meeting

<sup>1</sup> See above, pp. 131-135.

changed conditions during the budget period. This rigidity due to itemized appropriations almost invariably calls for some method of making transfers. When the spending authorities do not secure the needed flexibility through transfers, they may disregard to a large extent the detailed restrictions which have been fixed by the legislative body on their appropriations. If they set out to do this, as is often the case, and are not forestalled in such action, the final result is likely to be a demand for additional or deficiency appropriations. Thus, in the end, the legislative body has brought about the very condition which it had sought to avoid.

It is not difficult to understand how this condition arises. The only check on the overexpenditure of itemized appropriations is the audit performed by the independent accounting officer. Since this audit is generally confined to viewing the expenditure claims merely from the standpoint of their legality, it is neither satisfactory nor adequate as a means of administrative control even though it may be carefully done. Furthermore, the independent accounting officer usually fails to examine the financial transactions of the government before they have been finally consummated. Only through the preaudit method by which obligations may be forestalled can real budgetary control be exercised. This requires central administrative supervision and direction which under the foregoing arrangement is practically wanting. The spending authorities do not, as a rule, currently plan their work; even when they do, there may be a total lack of coördination in their expenditure requirements during the budget period. Besides, there is no attempt at balancing in the aggregate the proposed expenditures with the anticipated income of the government for the months or quarters of the fiscal year. In short, the major problem of financial administration, namely, the systematic handling of the finances of the government, is either overlooked or disregarded.

How, then, is effective budgetary control over expenditures to be established? The most scientific method thus far developed is the utilization of the work program under the supervision and direction of a central administrative authority—a concept which has recently been taking definite shape in budgetary legislation and practice. We shall now discuss the main features of such a program.

**The Work Program.**—The work program is an *administrative plan* for carrying on the activities of the government during the budget period. It is prepared after the legislative body has taken action on the budget and has voted the appropriations. Being based upon the actual expenditure authorizations made by the legislative

body, it is therefore distinct from the estimates which form the basis of the original budgetary proposals. The estimates set forth the anticipated purchase requirements of the governmental agencies, while the work program outlines the plan by which these agencies actually propose to carry on their activities. To state it in another way, the work program is the administrative interpretation of legislative policy as expressed in the appropriation acts or in the general laws. By such program, this policy is translated into terms according to which it is to be realized. It is for this reason, if we may again reiterate, that the work program is an administrative, not a legislative, plan.

The work program has a twofold advantage in budgeting: it makes possible real executive direction and supervision, and it enables the administration to meet changing conditions which cannot be anticipated in advance. The work program for the whole government is a composite of the working plans of the various governmental agencies. It sets forth in one master prospectus the government's entire activities. As such, it furnishes the executive with the information for genuine budgetary control over expenditures. The work program is, of course, based upon the idea that appropriations are merely authorizations to spend, and therefore admit of executive discretion in their expenditure. Otherwise, such a program is not feasible as an instrument of administrative direction. Furthermore, it is assumed that the appropriations are voted in lump sum amounts by the legislative body.<sup>1</sup> A satisfactory work program cannot be formulated when the appropriations are highly itemized. The more detailed the appropriations are the less opportunity there is for the preparation of a constructive work program. The best results are obtained when the legislative body states its fiscal policies only in major items and maximum amounts, leaving the detailed plan of expenditure to executive discretion. In this way, the administration is left free to meet changing conditions which cannot be forecast at the time the budget is adopted and the appropriations are made by the legislative body. Giving the administration this leeway does not lessen the power and authority of the legislative body over the expenditure of public moneys. It simply means that after the legislative body has appropriated a certain sum to the use of a spending agency and has defined the general policy which is to be followed, the further direction of the work thus authorized is an administrative matter and comes logically within the jurisdiction and control of the executive.

<sup>1</sup> See above, pp. 144-146.



The work program is prepared, just as in the case of the budget estimates, by the spending departments and agencies of the government. It is a plan of the year's work set up by the administrative head of each department or agency with the assistance of his subordinate officers. It is not an arbitrary scheme prepared by a superior executive authority which the administrative head is compelled to follow. It comes, first of all, from the spending department or agency itself. No departmental or institutional head can make a real attempt at constructive administration without coming sooner or later to the conclusion that a work program is not only desirable but necessary. If he plans his work, if he looks ahead, if he thinks at all about the future of his department or institution, then a work program, it seems, is inevitable. Good administration—direction with foresight—demands a work program. And when such a program has been prepared, it should be submitted to the chief executive or administrative officer of the government for his approval. This step is necessary, if we are to have central budgetary control.

The proper time for the preparation of the work program is immediately before the beginning of the budget or fiscal period to which it applies. This requires that the budget be acted upon and the appropriations voted by the legislative body a short time prior to the opening of the fiscal year or period. As we have already pointed out, such practice is not always followed.<sup>1</sup> Sometimes the appropriations are not authorized until two, three, or even four months of the budget period have elapsed. A work program prepared under such conditions would, of course, be applicable to only a part of the budget period and would therefore fall short of a complete means of budgetary control. A way around this difficulty would be to adopt a tentative work program based upon the budgetary proposals, which would be subject to revision as soon as the appropriations were authorized by the legislative body. While such a tentative program would not be completely satisfactory as a work plan, it would be preferable to drifting along without any program for perhaps a third of the year.

The work program, as applied to each spending agency, should include all of the proposed expenditures which have been authorized by the legislative body. In other words, it should cover appropriations for administration, operation and maintenance and for the acquisition of properties. The appropriations for administration, operation and maintenance should be shown separately in the work

<sup>1</sup> See above, pp. 416-422.

program from those for the acquisition of major properties, such as improvement projects. The reason for this is that the two groups of appropriations may be accorded different treatment under budgetary control. The former group, as expended, usually runs throughout the budget period in an unbroken stream, varying somewhat in volume from month to month, but only within certain limits. The latter group, however, is expended more or less sporadically and therefore may often be shifted from one season to another according to the condition of the treasury.

The part of the work program for administration, operation and maintenance may be stated (1) in terms of services, commodities, and obligations—things purchased or payments made,—or (2) in terms of production, operation, or service, that is, performance. The work program of any department or agency when set forth in terms of things to be purchased or payments to be made resembles very closely the ordinary form of budget estimates. It shows the subdivisions of the department or agency and under each one the purchase requirements according to the classes of objects. A work program prepared on this basis is not, however, as satisfactory from the administrative standpoint as one showing the proposed expenditures in terms of production, operation, or service units. The latter form of program permits the departmental work to be divided according to the functions or activities which are carried on. Performance, rather than purchases, is the important thing in this second form of work program. After all, performance is what we are seeking to regulate and control in administration. Hitherto, we have sought to attain this end by controlling what is bought, which is, at best, an indirect method. The direct method is to control what is done. But in order to control what is done, we must have an adequate system of cost accounts. Such a system is, as yet, practically undeveloped, except in certain rather limited fields. With the second form of work program it is necessary, of course, to transpose the unit costs into terms of services and commodities which are required to carry on the functions or activities. How this can be done is illustrated by the work program which was developed and used for a brief period in certain public works agencies of the Borough of Richmond in New York City.<sup>1</sup>

The part of the work program, covering the appropriations which are to be expended for the acquisition of major properties, should be set up according to projects or classes of projects. Each one of these should be carefully outlined, taking into consideration

<sup>1</sup> See above, pp. 170-171, 270, 272, 274-275.

seasonal conditions and availability of funds in the treasury for the work.

An essential feature of the work program is the distribution of the proposed expenditures over the months or quarters of the budget year or period. This is necessary in order to determine the rate of expenditure so as to keep within the appropriations and, at the same time, to know the demands for money that will be made upon the treasury. Such distribution is known as the "allotment" or "apportionment" of appropriations. We shall discuss this feature in the subsequent section.

The work program of each department or agency is not finally fixed until it has been submitted to the chief executive or administrative officer of the government and has received his approval either directly or through his budget staff agency. Before giving his approval, this officer will, of course, examine each work plan to see that it not only embodies the departmental policy, correctly interpreted, but is also in harmony with the general policy of the government. If he finds any work plan outlined in what he conceives to be incorrect proportions, he may ask the departmental head to revise it for resubmission, indicating the points at which he thinks changes should be made. By this process, the work programs of the various departments and agencies can be brought into line with the general legislative and administrative policy; they can be properly coördinated and unified; and, finally, they can be combined and set up as one master plan for the operation of the government as a whole.

The work program, as we have outlined it above, is not a mere theory, but it is the result of a conscious effort in the direction of establishing financial control. The idea of such a program came into existence along with the budget. It was first applied about two decades ago on a very limited scale to departmental and institutional work. The administrative heads of certain governmental agencies in the national, state and local governments found the work program a convenient and effective means of exercising central control over the planning of their current work. Early use, for example, was made of the work program by the Reclamation Service of the national government, by the charitable institutions of New York state, and by the street departments of such cities as New York and Philadelphia.

Perhaps the most notable example of the early application of the work program in cities was that made in New York City between 1913 and 1915. As we have already pointed out, this program applied to three bureaus—the bureau of street cleaning, the bureau

of highways, and the bureau of sewers—of the Borough of Richmond. The program for each bureau was stated in terms of quantity of work of defined kinds, and the cost estimated from unit costs of the same kind of work done in previous years.<sup>1</sup> The total year's work was apportioned among the four quarters, thus showing the proposed expenditures for each quarter both by items and by total. To insure the realization of the program, periodic reports were required from each bureau head, setting forth the progress of the work. These reports were based upon information supplied through a system of cost accounts. There was also independent inspection of the activities of each bureau by a staff of examiners under a central controlling agency. To meet unforeseen conditions, the bureau heads were authorized to modify their quarterly plans to an amount not exceeding 10 per cent of the allotment to a specific item of work.

The idea behind the Richmond work program, or "cost data" budget, as it has been called, was undoubtedly sound. The failure of the scheme after three years was due to the way it was handled. In practice, this work program was not an administrative, but a legislative, device. It was prepared several months before the beginning of the fiscal year and was incorporated as an estimate in the so-called budget. When the appropriations were authorized by the legislative body—the board of estimate and apportionment and the board of aldermen—the work program with all its details was included in the appropriation ordinance as a supporting schedule to the lump sum appropriation made to each bureau. It was thus rigidly fixed for the entire year, except for the 10 per cent leeway mentioned above, and could not be changed except through legislative action. At all times, it was subject to legislative control and investigation by the budget committee of the board of estimate and apportionment. This is what brought about its undoing. Legislative control should have ceased with the authorization of the lump sum appropriations, except for independent auditing exercised under the supervision of the legislative body. The work program should have been finally prepared after, rather than before, the appropriations were made, and its subsequent modification to meet changed conditions should have been entirely an administrative matter.

The Richmond scheme provided a work plan for only a very small part of the city government. In fact, nowhere in the country did the idea of a work program have a broad application at that time. It was generally restricted to certain governmental agencies or groups of agencies. Only when it was conceived to be a necessary step in

<sup>1</sup> See above, Figure 40, pp. 274-275.



the execution of the budget was its scope enlarged to take in all, or nearly all, of the activities of the government. This was some time later. The larger application of the work program did not result directly from budgetary development but from administrative reorganization to bring about centralized executive direction and control. In the reorganized city government, the manager or the mayor found he could not administer the financial affairs effectively without a work program. The governor found the same thing to be true in the case of the reorganized state administration. Thus, the work program has now become a well-recognized part of the necessary paraphernalia of financial management and control.

**Monthly or Quarterly Allotments.**—The allotment of appropriations by administrative authorities really antedates the advent of the work program. The earliest form of allotments was the division of annual appropriations into twelve equal parts, one for each month. This scheme was practiced in some of the state and city governments almost a generation ago. Its prime purpose was to prevent the expenditure of any appropriation at a rate fast enough to exhaust it before the end of the fiscal year. The calculation of the allotments under this scheme was a simple mathematical process; no work plan or program was required. In this respect, the scheme was purely arbitrary; it did not allow for variations in the expenditure demands due to seasonal, or other changes in the work. No spending agency could be expected to spend exactly the same amount each month in the year. Besides, this scheme was usually imposed upon the spending agencies by superior authority—the chief accounting or controlling officer of the government. The experience of the spending agencies was not considered.

Then came the method of allotments in which the experience of the spending agencies was considered, at least, in a limited way. The officers of these agencies were permitted to suggest the amount of the allotments to be made during the year. The allotments might be unequal for the different months or quarters of the year in order to meet changed plans or conditions. They were no longer arbitrarily made without any regard for administrative needs. At this point, the work program began to appear in some of the governmental agencies. When the administrative officer set about the task of apportioning the appropriation for his agency over the months or quarters of the year, he naturally thought about the work his agency was going to do. The monthly or quarterly rate of expenditure was determined by the amount of work he proposed to carry on, hence a work program was the practical result.

*The Allotment System of the National Government.*—Among the first of the allotment schemes which allowed the heads of spending agencies to exercise their discretion, was the national system provided for by the so-called anti-deficiency act of 1906. This act provided that "No executive department or other government establishment . . . shall expend, in any one fiscal year, any sum in excess of appropriations made by Congress for that fiscal year, or involve the government in any contract or other obligation for the future payment of money in excess of such appropriations unless such contract or obligation is authorized by law." It further provided that "All appropriations made for contingent expenses or other general purposes, except appropriations made in fulfillment of contract obligations expressly authorized by law, or for objects required or authorized by law without reference to the amounts annually appropriated therefor, shall, on or before the beginning of each fiscal year, be so apportioned by monthly or other allotments as to prevent expenditures in one portion of the year which may necessitate deficiency or additional appropriations to complete the service of the fiscal year for which said appropriations are made. . . ." Any administrative officer violating these provisions was to be summarily dismissed from office and might also be punished by a fine of not less than \$100 or imprisonment for not less than one month.

This act was looked upon as an unusual law at the time; it was confidently expected by congressmen to check the prevalent abuse of overexpenditure of appropriations. In this, however, it largely failed, as was evidenced by the amount of deficiency appropriations which Congress had to pass every year until after the national budget system was adopted in 1921. As a matter of fact, it does not appear that the departments and establishments of the government regarded the provisions of the anti-deficiency act very seriously before the budget system got under way. Some of the departments, it seems, never apportioned their appropriations or opened up any accounts to comply with the act, yet the penalties of the act were never invoked. Nevertheless, the act stands today on the statute books and is now the legal basis of the allotment system which has been recently developed by the Bureau of the Budget. Prior to the creation of this Bureau, there was no central agency to see that the provisions of the act were carried out. Congress merely imposed certain obligations on the spending officers of the government, and left them to their own devices in meeting these obligations.

After the Bureau of the Budget was established in 1921, the President and the Director of the Budget set about the task of seeing what

could be done to prevent, as far as possible, the overexpenditure of appropriations and thus eliminate deficiencies. The result was that they revived the anti-deficiency act. On December 21, 1921, the Director of the Budget issued a circular to the heads of all the departments and establishments of the government, calling attention to the provisions of this act and requiring that a copy of the quarterly apportionments be filed with the Bureau of the Budget and also any subsequent amendments to the original apportionments. The system did not really get under way until 1925. The reports on the apportionments were then filed with the division of estimates under the Bureau of the Budget. Revised regulations have since been issued from time to time by the Director of the Budget, the latest being embodied in Circular No. 203, dated April 6, 1927. Owing to the importance of these regulations in the national scheme for budgetary control, the provisions of this circular are quoted at length. They are as follows:

1. After the passage of its annual appropriation act and prior to June 30 of each year each department or establishment will furnish the Bureau of the Budget on Standard Form No. 12 a statement for each item of appropriation (including permanent appropriations) known at that time to be available for the ensuing fiscal year, showing the amount apportioned for obligation during each quarter of the fiscal year and the amount apportioned to the general reserve. The same procedure will be followed with respect to any new item of appropriation which subsequently becomes available to a department or establishment.

2. General reserves should be provided (1) to meet emergencies that cannot be anticipated at the time the apportionment is made, and (2) to effect savings in the appropriation where such savings can be made without detriment to the service in question.

3. When the amount of any appropriation is changed by an additional appropriation, or an addition thereto from miscellaneous receipts by appropriation warrant, or a transfer thereto or therefrom by transfer appropriation warrant, or when for any other reason a change in an apportionment is made after the original statement on Standard Form No. 12 is submitted, a statement will be furnished on Standard Form No. 11 showing the modified apportionments due to such change.

4. Not later than the 15th of each month following the end of a quarter each department and establishment will furnish the Bureau of the Budget with a statement showing for each apportionment: (a) the amount of obligation authorized under it by the head of the agency charged with the administrative control of the funds of the apportionment; (b) the amount actually obligated under the corresponding apportionment for the quarter ending three months before.

When the "actual obligation" is available it should be reported under (a) instead of the "authorized obligation," but the report will not be delayed for this purpose.

Standard Form No. 12  
Approved by the President  
December 11, 1925

## Apportionment No. \_\_\_\_\_

(Signature) \_\_\_\_\_

(Title) \_\_\_\_\_

(Size: 8 x 10½ inches.)

ernment for the allotment or apportionment of each item of appropriation. The net amount of the appropriation to be allotted is arrived at in the caption of this form. On the first line underneath the caption is entered the amount of each quarterly allotment for the entire year, including a reserve against all the quarters. The



total of the quarterly allotments plus the reserve is equal to the "net amount to be apportioned." Beneath this line, space is provided for the entry of any revisions of the quarterly allotments which may be made during the year. These revisions are made on Standard Form No. 11, which is reproduced in the accompanying Figure 42. Space is provided near the bottom of Standard Form No. 12 for the entry of the information on performance which is required to be reported under paragraph 4 of the regulations.

The purpose of the reserve, as stated in the regulations, is to meet departmental emergencies that cannot be anticipated at the time the apportionment is made and also to effect savings in the appropriation where possible without detriment to the service. When this reserve was first set up for the fiscal year 1922, it was expendable only with the approval of the Director of the Budget. Later, this regulation was changed and the reserve was made expendable upon the authorization of the head of the department or establishment concerned. This change was made, so it was stated, in order to place full responsibility upon the heads of the spending agencies for conserving appropriations. There was perhaps another reason, even more cogent, for the change; that was the lack of executive authority under the law to control the expenditure of appropriations which were largely regarded as grants made by Congress to the spending agencies of the government. Nevertheless, the result of the change is that the disposition of the reserve during the fiscal year is entirely in the hands of the spending agencies; they set it up, and they decide when it should be spent. There is no fixed percentage for the reserve; it may amount to as much as 10 per cent of the appropriation, usually about 5 per cent or even less. According to a recent annual report of the Director of the Budget, the reserve method has proved an effective means of saving funds. Nothing, however, is said about its efficacy in meeting emergencies. But General Lord does observe that it has afforded each departmental head the "opportunity of controlling the financial operations of his department." At the same time, he says, it has afforded the Bureau of the Budget the "opportunity of observing how the financial operations of the entire federal service are administered."<sup>1</sup> This is, indeed, an interesting comment on the extent of the budgetary control exercised by the departmental heads and by the Bureau of the Budget. Does it not appear from this that the bureau chiefs still have their own way to a very large extent in the expenditure of the appropriations granted by Congress?

<sup>1</sup> Seventh Annual Report of the Director of the Bureau of the Budget to the President of the United States, July 1, 1928, p. 11.

The apportionment of the appropriations is made by the spending departments and establishments on the form described above and filed with the division of estimates of the Bureau of the Budget. This is done a few days before the beginning of the fiscal year to

Standard Form No. 12  
Approved by the President  
December 11, 1925

No. \_\_\_\_\_

### WAIVER OF APPORTIONMENTS

\_\_\_\_\_  
(Department or establishment) (Date)

Modification is hereby made in the apportionment No. \_\_\_\_\_ as follows:

(NOTE.—State briefly the nature of, and the reason for, modifications)

\_\_\_\_\_  
(Appropriation title) (Fiscal year)

	PRESENT APPORTIONMENT	MODIFIED APPORTIONMENT
First quarter		
Second quarter		
Third quarter		
Fourth quarter		
Reserve		
Total		

10-1714

FIGURE 42. Form for the Revision of Allotments Used by the National Government  
(Size: 8 x 10½ inches.)

which the appropriations apply. When the forms containing the apportionments reach the Bureau of the Budget, they are arranged according to organization units and placed in suitable binders. Notations are made on these forms when the apportionments are

modified during the fiscal year through the filing of a "waiver" by the department or establishment concerned. A brief record is also made of the quarterly report which each spending department and establishment is required to make to the Bureau of the Budget, showing the amount of obligations, actual or authorized, against each apportionment for the quarter just ended, and the amount actually obligated under the corresponding apportionment for the quarter ending three months before. By this method the Bureau of the Budget is enabled to follow the actual rate of expenditure in the various departments and establishments of the government. It may, as the staff agency of the President, caution or admonish the departments and establishments concerning their expenditures, but it has no legal authority to check or control these agencies in spending their appropriations. In fact, the departmental heads are sometimes powerless to control the expenditures of the bureau chiefs under them. The President, therefore, has no direct control either through the Bureau of the Budget or the departmental heads over the expenditure of appropriations. His advice with regard to the execution of the budget is respected by the spending agencies mainly on account of his power over appointments to the federal service and his authority to formulate the budget for Congress.

*The Practice of Allotting in State Governments.*—Turning to the state governments, we find that allotments were first used as a means of current budgetary control in Illinois under the civil administrative code of 1917. Since that time, they have been applied for the same purpose in several other states, notably, Nebraska, Pennsylvania, Minnesota, and North Carolina.<sup>1</sup> The general practice of these states with reference to allotments is discussed below.

The Illinois allotment system was initiated under Governor Lowden's administration, the detailed procedure being worked out by Omar H. Wright, director of finance, assisted by W. H. McLain, superintendent of budget. During this administration the system operated with notable success as a method of budgetary control. The succeeding governor, however, paid very little attention to the allotments, the result being that the procedure has not been developed beyond the point reached at the beginning of 1921 when Governor Lowden's administration ended. Our description of the system, therefore, is based on what it was at that time.

The provisions of the Illinois civil administrative code of 1917,

<sup>1</sup> Legal provisions have been made for allotments in some other states, for example, Ohio, Tennessee and Virginia, which have not yet been effectively carried out in practice. Without general legal authorization, California, New York, and Washington have, to a limited extent, made use of allotments.

upon which the allotment system is based, were rather indefinite both as to the nature of the allotments and the procedure for making them.<sup>1</sup> Hence, it was necessary to supplement these provisions by executive orders issued through the department of finance. According to these orders, all departments under the code were required to allot their appropriations by quarters for one year at a time. When the appropriations were made for a biennium, as they frequently were, the spending officers of the departments were asked to split them into two parts before allotment. It was not necessary that these parts should be exactly equal; this was a matter for the spending officer to decide in view of his expenditure needs. At the opening of each year of the biennium, allotments by quarters for that year were made by the spending officers of the several departments and filed with the department of finance. These allotments were divided, first, on the basis of the suborganization units of the departments, that is, the divisions and institutions, and, second, on the basis of the main object classes of expenditure. The amount of each quarterly allotment was arrived at through a series of monthly estimates, it being assumed that the spending officer would use for this purpose something in the nature of a work program. An item for contingencies was set aside in connection with each quarterly allotment. The allotments became effective when approved by the department of finance, and budgetary control was exercised during the fiscal year on the basis of these allotments. Since the department of finance was empowered to audit and approve all bills before their payment, it was in a position to enforce the carrying out of the allotments. If conditions seemed to warrant a change, the allotments could be amended during the fiscal year with the approval of the department of finance. This approval was, at all times, equivalent to executive sanction, the department of finance being the fiscal staff agency of the governor. The allotment system was at that time, and still is, considerably hampered by the detail in which the appropriations are made. The Illinois legislature has not yet accepted the lump sum basis of making appropriations.

Under the provisions of a revised budget law passed in 1921, Nebraska adopted for purposes of budgetary control a scheme of allotments similar to that of Illinois. This scheme was worked out and installed under the direction of Philip F. Bross, who was at that time secretary of finance under Governor McKelvie's administration. It has operated continuously since then, although under some administrations it has not had the wholehearted support of the gover-

<sup>1</sup> These provisions are quoted above, p. 455.



EXPENDING AGENCY  
STATE OF NEBRASKA  
Department of Finance

For the Period between  
[Reference Section 13 H R 452, Laws 1921]

ESTIMATE

EXPENDING AGENCY  
Title of Appropriation

Bureau or Division

Code No

192

and

192

ESTIMATES OF AMOUNTS FROM DEPARTMENTAL APPROPRIATION AND RESOURCES—UNDER THE STANDARD EXPENDITURE ACCOUNTS

1	2			3			4			5
	Operating Expenses	Capital Outlay	Special Expenditures	Operating Expenses	Capital Outlay	Special Expenditures	Operating Expenses	Capital Outlay	Special Expenditures	
1	2	3	4	5	6	7	8	9	10	
Sub-item	Sub-item	Sub-item	Sub-item	Sub-item	Sub-item	Sub-item	Sub-item	Sub-item	Sub-item	
Total Estimated—above										
Amount Available										
Total Estimated for Quarter 1st Year of Biennium										
Total Estimated for Quarter 2nd Year of Biennium										
Total Estimated for Quarter 3rd Year of Biennium										
Total Estimated for Quarter 4th Year of Biennium										
Total Estimated for Quarter 5th Year of Biennium										
Total Estimated for Quarter 6th Year of Biennium										
Total Estimated for Quarter 7th Year of Biennium										
Total Estimated for Quarter 8th Year of Biennium										
Total Estimated for Quarter 9th Year of Biennium										
Total Estimated for Quarter 10th Year of Biennium										
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Total Estimated for Quarter 96th Year of Biennium										
Total Estimated for Quarter 97th Year of Biennium										
Total Estimated for Quarter 98th Year of Biennium										
Total Estimated for Quarter 99th Year of Biennium										
Total Estimated for Quarter 100th Year of Biennium										

SIGNED

192

Approved

192

SECRETARY OF FINANCE

Date

192

Approved

192

Approved

192

GOVERNOR

Date

192

FIGURE 43. Form for the Allotment of Appropriations Used by the State of Nebraska.  
(Size: 14 x 17 inches; caption the long way.)

nor. The procedure calls for quarterly allotments by each spending agency of its appropriations with approval of these allotments by the governor before the appropriations become available for expenditure. The allotments are made at the beginning of each biennium and cover the entire period, since the appropriations are made for two years at a time. The appropriations are made largely in lump sum amounts; the method of splitting them up for the allotments is illustrated by the accompanying form, Figure 43. It will be seen from an examination of this form that the allotments are required to be itemized according to the general classes of expenditures. As a reserve against contingencies, the department of finance sets aside at the beginning of the biennium 10 per cent of the appropriation to each agency for that period and at the end of each quarter returns one eighth of this amount to the agency for distribution in its next quarter's allotment. In this way the possibility of overexpenditure of appropriations is reduced to a minimum. The department of finance is able to keep a check on the rate of expenditure of each agency, since it maintains a set of appropriation accounts and audits all bills before payment. It, therefore, knows when the allotments for any quarter are being overdrawn.

The Pennsylvania system of allotments was instituted in 1923 by Clyde L. King, who was then secretary of state and finance under Governor Pinchot. This system was operated under the department of state and finance until 1927, when the budgeting powers of that department were transferred to a budget secretary directly under the governor's office. The legal provisions which authorize the making of allotments permit the governor to fix the period of allocation.<sup>1</sup> Governor Pinchot fixed this period on the monthly rather than the quarterly basis, as is the practice in other states. Since the appropriations are made in lump sum amounts for the entire biennium, it is necessary to split these amounts in order to arrive at the apportionment for each of the two years. In the case of appropriations for operating purposes, 48 per cent is set aside for the first year of the biennium. This leaves 52 per cent for the second year, 2 per cent of which is held as a reserve against the contingencies of the first year. A smaller percentage, usually 38 or 40 per cent, of the appropriations for construction purposes is apportioned to the first year. The monthly allotments are then prepared by the several spending agencies for each year of the biennium, with the possibility of revision at any time during the year. Before giving his approval to these allotments, the governor may request the

<sup>1</sup> See above, p. 455, for these provisions.

spending agencies to revise and resubmit them. In carrying out the allotments, the spending agencies are put entirely upon their own responsibility; no central accounting control is provided to see that they keep within their allocations. These agencies, however, are required to submit monthly reports to the budget officer, showing their authorizations and expenditures in relation to their allotments. In this respect, the method is similar to that followed by the national government, which we have described above.

The Minnesota reorganization act of 1925 provided that all appropriations, before they are available for expenditure, must be allotted on a quarterly basis by the spending agencies concerned and these allotments must be approved by the commission of administration and finance. This commission is head of the department of administration and finance, and, as we have already pointed out, consists of three members appointed by the governor. The allotments are made for one quarter at a time, not for the year or the biennium covered by the appropriations. They are required to be in the hands of the commission by the middle of the month preceding the quarterly period to which they apply. They may be amended during the period with the approval of the commission. The lump sum appropriations are allotted on the basis of the object classification of expenditures, which goes into considerable detail. Central accounts are kept in the department of administration and finance under the direction of the comptroller, who is a member of the commission. His approval is necessary before any contracts can be entered into involving the expenditure of money or before any bills can be paid. In this way, he maintains control over the expenditure of the appropriations according to the allotments. No reserve is set aside for contingencies arising during the quarter. The unexpended balance of any quarterly allotment is available for future allotments within the fiscal year.

Incidentally, the Minnesota system of allotments and budgetary control has been challenged in the courts. The University of Minnesota in a recent case (decided by the state supreme court on July 27, 1928) succeeded in having the procedure, as applied to it, declared unconstitutional. In this decision, the court intimated that the same conclusion might be reached with reference to the independent administrative officers, namely, the attorney general, the auditor, the treasurer, and the secretary of state.

The North Carolina system of allotments was provided for by the state budget law of 1925. It was installed by Henry Burke, budget assistant to Governor McLean. Under this system, the

allotments are prepared by the spending agencies on a quarterly basis, one quarter at a time. All appropriations can be freely allotted since they are made in lump sum amounts.<sup>1</sup> Each spending agency is voted an appropriation for operation and maintenance and another one, if needed, for permanent improvements. The former appropriation is allotted by quarters and the latter by projects. The allotments for administration, operation and maintenance (referred to simply as maintenance) are made upon a form which is reproduced herewith as Figure 44. It will be noted that this form shows the estimated expenditures for the quarter just coming to a close and the actual expenditures for the corresponding quarter in each of the two preceding years. This comparison with previous expenditures should be of value in approving the allotments; it has much the same significance that attaches to it on the estimate forms. The last two columns on the form show the unallotted appropriations and the proposed allotments for the quarter immediately ahead. The itemization of the allotments is made along bureau, division, or activity lines. This form is supported by two other forms. One of these distributes the proposed allotments according to the main object classes of expenditures, while the other elaborates on the comparative figures. The appropriations for permanent improvements are allotted by projects on another form. These allotments continue in force until the projects are completed. All proposed allotments are required to be filed with the governor by the spending agencies at least twenty days before the beginning of the quarter to which they relate. The governor may modify the proposed allotments, if he deems it necessary, before approving them. Upon approval, the governor sends a copy of the allotments to the state auditor, who is required to control the expenditures accordingly. The auditor's control extends to all moneys which are appropriated directly out of the state treasury. Several of the spending agencies, however, are allowed to retain certain receipts which they take in and to expend them for maintenance purposes. While these receipts, together with the direct appropriations, are included in the allotments, the auditor does not exercise any preaudit control over them. The spending agencies are required to submit monthly reports to the governor and the auditor on the condition of their allotments, thus requiring a system of departmental bookkeeping. From the standpoint of budgetary control, this system resembles the one installed under Governor Pinchot in Pennsylvania.

Among the partial allotment schemes, that of New York State

<sup>1</sup> See above, pp. 133-134.



### REQUEST FOR MAINTENANCE ALLOTMENT

DEPARTMENT  
OR  
INSTITUTION

For the	Quarter of 1923	.2	Ending
1922	1923	1924	1925
1926	1927	1928	1929
1930	1931	1932	1933
1934	1935	1936	1937
1938	1939	1940	1941
1942	1943	1944	1945
1946	1947	1948	1949
1950	1951	1952	1953
1954	1955	1956	1957
1958	1959	1960	1961
1962	1963	1964	1965
1966	1967	1968	1969
1970	1971	1972	1973
1974	1975	1976	1977
1978	1979	1980	1981
1982	1983	1984	1985
1986	1987	1988	1989
1990	1991	1992	1993
1994	1995	1996	1997
1998	1999	2000	2001
2002	2003	2004	2005
2006	2007	2008	2009
2010	2011	2012	2013
2014	2015	2016	2017
2018	2019	2020	2021
2022	2023	2024	2025
2026	2027	2028	2029
2030	2031	2032	2033
2034	2035	2036	2037
2038	2039	2040	2041
2042	2043	2044	2045
2046	2047	2048	2049
2050	2051	2052	2053
2054	2055	2056	2057
2058	2059	2060	2061
2062	2063	2064	2065
2066	2067	2068	2069
2070	2071	2072	2073
2074	2075	2076	2077
2078	2079	2080	2081
2082	2083	2084	2085
2086	2087	2088	2089
2090	2091	2092	2093
2094	2095	2096	2097
2098	2099	2100	2101
2102	2103	2104	2105
2106	2107	2108	2109
2110	2111	2112	2113
2114	2115	2116	2117
2118	2119	2120	2121
2122	2123	2124	2125
2126	2127	2128	2129
2130	2131	2132	2133
2134	2135	2136	2137
2138	2139	2140	2141
2142	2143	2144	2145
2146	2147	2148	2149
2150	2151	2152	2153
2154	2155	2156	2157
2158	2159	2160	2161
2162	2163	2164	2165
2166	2167	2168	2169
2170	2171	2172	2173
2174	2175	2176	2177
2178	2179	2180	2181
2182	2183	2184	2185
2186	2187	2188	2189
2190	2191	2192	2193
2194	2195	2196	2197
2198	2199	2200	2201
2202	2203	2204	2205
2206	2207	2208	2209
2210	2211	2212	2213
2214	2215	2216	2217
2218	2219	2220	2221
2222	2223	2224	2225
2226	2227	2228	2229
2230	2231	2232	2233
2234	2235	2236	2237
2238	2239	2240	2241
2242	2243	2244	2245
2246	2247	2248	2249
2250	2251	2252	2253
2254	2255	2256	2257
2258	2259	2260	2261
2262	2263	2264	2265

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## Estimates of Expenditures (by Objects)

(1)	(2)	(3)	(4)	(5)	(6)
Expenditures by Objects, Receipts, Allotment, Etc.	EXPENDITURES OF OTHER QUARTERS For Comparison		(4)		Proposed Expenditures Quarter Under Request
	Actual Same Quarter, Year Before Last	Actual Same Quarter, Year Last Year	Estimated This Quarter	Unallotted Balances of Appropriation	

FIGURE 44. Form for the Allotment of Appropriations (Maintenance) Used by the State of North Carolina.  
(Size: 11 inches square.)

is perhaps the most interesting. Under the so-called legislative budget system, adopted in 1916, the New York state appropriations were highly itemized, even those for the maintenance of state institutions. But in 1921, the legislature began to make lump sum appropriations to many of the state institutions, specifying that not to exceed a certain portion of these lump sums should be expended in each case for personal services. Each institution receiving appropriations of this kind was required before the beginning of the fiscal year to file a schedule with the legislative budget committee, the state comptroller, and the civil service commission, showing in detail how the amount was to be expended during the budget period. This gave some flexibility to what had previously been very rigid appropriations. In 1925 the legislature provided that a copy of the schedule be filed with the governor as well as with the other agencies mentioned above, and that it must be approved by the governor, the chairman of the senate finance committee and the chairman of the assembly ways and means committee before any expenditures were made from the appropriation. Thus the governor was permitted to share with the representatives of the legislature in budgetary control over these institutions. Later (in 1927), the use of lump sum appropriations was somewhat extended, but the legislature kept its control over the apportionment of these appropriations by requiring the chairmen of the two committees and the governor, as a third party, to approve the schedules. Changes or modifications of the schedules during the budget year had to be approved by the same officials before they were effective. Although the New York legislature has changed slowly in these instances from the use of highly segregated appropriations to lump sum authorizations, it has still retained almost the same rigid control by its method of approval of the lump sum apportionments. Will this procedure be changed when the so-called executive budget system, provided for by constitutional amendment, becomes fully operative in 1929? Unless it is, can we say that New York state has real executive direction in carrying out the budget? <sup>1</sup>

<sup>1</sup> At this writing (June, 1929), a muddle in the fiscal affairs of the state exists over this very procedure. Governor Roosevelt asked for lump sum appropriations in the case of certain departments and institutions with the proviso that these amounts were to be expended in accordance with detailed schedules approved by him. The legislature amended the governor's appropriation bill by adding that these schedules must also be approved by the chairman of the senate finance committee and the chairman of the assembly ways and means committee. Thereupon, the governor vetoed the items in the bill which were affected by this provision. He then submitted to the legislature two supplementary bills, one presenting the items which he had vetoed in lump sum amounts and the other setting

*Allotment Systems in Local Governments.*—Among the local governments, there are a number of cities, principally those with the manager form of government, which use the allotment system as a method of budgetary control. This practice has developed mainly within the last decade, although Washington, D. C., was required to follow it somewhat earlier.

By reason of the fact that the District of Columbia is controlled by Congress, the allotment scheme of the federal anti-deficiency act of 1906 was applied to the expenditures of the District in 1913 through a provision inserted in the appropriation act for that year. As we have noted above, this procedure was not fully effective until after the national budget system was established. The allotments are now prepared on a quarterly basis by the spending agencies of the District, reviewed by the District commissioners, and filed with the District auditor. The District auditor exercises current, or pre-audit, control over the expenditures according to the allotments. Since the budget of the District of Columbia is part of the national budget, copies of the allotments are filed with the Bureau of the Budget and periodic reports are made in the same manner as in the case of the regular departments and establishments of the government.<sup>1</sup>

Berkeley, California, affords one of the best examples among the manager-governed cities of the use of allotments. The Berkeley scheme was devised by J. H. Jamison, budget officer to Manager John N. Edy. The basic purpose of the scheme is to control the timeliness of expenditures. The heads of the different spending agencies are required to divide their appropriations, before the beginning of the fiscal year, into twelve parts, called "splits." These splits, which are to be applied to the future months, are not necessarily equal; since they follow the work program of the agency for the year, they are rarely the same amount. The appropriation for each spending agency is not only divided into twelve parts, but each of these parts is further segregated according to certain major classes of expenditure. The monthly splits are filed with the budget officer, where they are reviewed and approved. They then become

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forth the same items in detailed form. The legislature, he stated, might take its choice of these bills. But the finance committees drafted a supplementary bill to their own liking, which, although it followed in the main the governor's detailed bill, contained the provision that had led to the veto in the first case. The governor again vetoed certain sections of this bill with the idea of eliminating this provision. The matter is now before the courts for a ruling on whether the legislative action is within the letter and spirit of the budget amendment.

<sup>1</sup> For a discussion of this procedure, see above, pp. 464-469.

the means of budgetary control during the year. This control is exercised by the budget officer through a preaudit system. A spending agency may exceed its monthly allotments under certain circumstances and within certain limits with the approval of the manager, but the subsequent allotments must be adjusted to take up the overrun. In this way, small operating contingencies can be taken care of during the year. However, the council has provided the manager with an appropriation, called an "emergency fund," which the latter can use to meet any real emergencies that may arise. A report is prepared by the budget officer at the end of each month showing the status of all allotments.<sup>1</sup>

As the first city manager of Knoxville, Tennessee, Louis Brownlow conducted an interesting experiment in the use of allotments as a method of controlling expenditures. Mr. Brownlow's previous experience as a commissioner of the District of Columbia and as city manager of Petersburg, Virginia, had given him ample opportunity to observe and to apply different methods of budgetary control. He had worked under the federal scheme of quarterly apportionments as applied in the District of Columbia, which he believed to be too mechanical and too rigid in some respects. He had also managed the finances of the small city of Petersburg by the use of a kind of monthly check system which he personally devised and applied for his own information. Upon going to Knoxville in the fall of 1923, he decided to use a modified scheme of monthly allotments. This scheme was suited to the varying needs of the different departments. In the police and fire departments, where more than 90 per cent of the total appropriations was for personal services, an allotment into approximately twelve equal parts was considered near enough for practical purposes. A different method was used in the department which handled the public works functions, such as, streets, sewers, street cleaning, garbage collection, water supply, and street lighting. The appropriations for ordinary operation were divided into approximately twelve equal parts, but those for maintenance and construction were allotted on the basis of a work program. For quick reference, the allotments for the year were plotted on a curve chart; as the expenditures were made from month to month, another curve was added to the same chart, thus showing graphically the relation between the allotments and the actual expenditures. A similar method was used in the other departments having appropriations for maintenance and construction work. In

<sup>1</sup> For a more detailed discussion of the Berkeley system, see J. H. Jamison, "How Berkeley Controls Its Municipal Expenditures," *The Tax Digest*, October, 1928, pp. 331-335.



the case of the public schools, a work program was made which allotted nearly all of the appropriations for repair work to the summer months, thus permitting this work to be done when the schools were not in session. Although the appropriations were not made in lump sum amounts, this allotment scheme gave considerable flexibility to the expenditure, so that it was seldom necessary for the manager to go to the council for transfers. Through a mechanical bookkeeping system which Mr. Brownlow had installed, he received daily statements of the city's financial operations. He also had semi-monthly statements prepared which showed for each department and each item of appropriation, the expenditures for the semi-monthly period, the expenditures of the fiscal year to date, and the unencumbered balance of appropriations. These statements were discussed at a conference of the department heads and the rate of expenditure was readjusted whenever it became necessary. In this way, the department heads became acquainted with each other's needs and the manager was enabled to supervise the expenditures.<sup>1</sup>

In 1927 the board of supervisors of the city and county of Honolulu, Territory of Hawaii, under the guidance of Henry P. Seidemann of the Institute for Government Research, provided for the allotment of appropriations. The allotments are made on a quarterly basis, one quarter at a time. The head of each spending agency is required to submit a schedule of proposed allotments to the board of supervisors for approval at least fifteen days before the beginning of the quarter. These allotments are accompanied by what is called a "budget program," which is merely another term for a work program. Both the work program and the proposed allotments are passed on by the finance committee of the board of supervisors which makes recommendations as to the action which the board as a whole is to take. All bills and claims against the appropriations are checked by the secretary of the finance committee before payment, thus providing a kind of preaudit conducted under the direction of the board of supervisors. Here we have a scheme of allotments which affords the means of legislative, rather than executive control, over the execution of the budget. The legislative body not only votes the appropriations, but it controls the month to month expenditure of these appropriations. As we have stated earlier, we believe that the execution of the budget is not a function of the legislative body. Of course, where the governmental unit is without an executive head, or where it has a plural executive in the form of a commission which

<sup>1</sup> See Mr. Brownlow's discussion in the Proceedings of the Governmental Research Conference for 1927, pp. 196-199.

is also the legislative body, there are oftentimes great practical difficulties in the way of divorcing the execution of the budget from the legislative body.<sup>1</sup>

*Significant Features of the Allotment System.*—Let us note the significant features of the state and city allotment systems which we have just described. The allotments are generally made by quarterly periods in the states and by monthly periods in the cities. Some notable exceptions are the state of Pennsylvania, which uses the monthly period, and Washington, D. C., to which the federal quarterly period is applied. The allotments are generally projected over the entire fiscal year—in some states, over the biennium—covered by the budget; that is, all quarters or months are allotted at the beginning of the year, subject to later revision if it becomes necessary. Only in a few cases are the appropriations allotted for one quarter or month at a time, the subsequent quarters or months of the year remaining unallotted until they are reached. The allotments are prepared in the first instance by the spending agencies and are frequently based on some kind of a work program. A small reserve, amounting to from 2 to 10 per cent of the total appropriation for current purposes, is sometimes set up for the purpose of meeting contingencies which may arise during each year. All proposed allotments, as prepared by the spending agencies, are submitted to a central authority, usually the executive or his budget staff agency, for approval before they become effective. In most cases, the allotments may be revised before approval, if the executive or other agency deems it necessary. When approved, the allotments become a means of budgetary control. This control is exercised either through a preaudit of all bills by a central administrative authority, or through periodic reports, usually made each month, by the spending agencies. Of these methods of control, we shall say more in the next chapter.

Should the allotments be made for quarterly or monthly periods? Quarterly allotments would seem to be adequate for purposes of budgetary control. Reports on how the allotments are being carried out should be made each month. In this way, the chief executive or administrator can keep informed as to the trend of expenditures. Any readjustment in the work program or the allotments can then be made at the beginning of the next quarter. This presupposes that the allotments are projected over the entire fiscal year at the beginning, instead of merely a quarter at a time. The practice of includ-

<sup>1</sup> Mr. Seidemann also installed a scheme of allotments in the territorial government of Hawaii in 1927. These allotments, however, are under the supervision of the governor who has the assistance of a budget director.

ing the whole year at once seems quite desirable. It enables the chief executive or administrator to know the rate of proposed expenditures throughout the year; therefore, he can plan not only to keep within the appropriations but also to have sufficient money in the treasury to meet all bills as they are presented for payment. Besides a quarter is too brief a period for a satisfactory work program. Such a program should extend over a year, thus presenting a complete cycle of work so far as seasonal and other variations are concerned. Some state governments project the allotments over two years, namely, the biennium covered by the budget. Of course, a work program can be made on a biennial basis, but it is likely to be rather indefinite as to the details of the second year of the period. This, however, can be remedied by a general revision of the program at the end of the first year. A rigid program for a period of two years should not be attempted, even though the appropriations are made for the whole period rather than for each year of the biennium.

The allocation of appropriations may be made according to any one of three methods. The first method is purely mathematical; it involves merely a division of the appropriation into four or twelve parts, depending upon whether quarters or months are used as the basis of the allotment. Except with respect to those expenditures which do not vary from month to month, such an apportionment can bear only an accidental relation to actual work requirements. The second method is based entirely on past experience. According to it, the allotments are arrived at by taking a percentage of the total appropriation, which percentage is secured through a kind of statistical analysis of the last completed year's expenditures. For example, the Rochester (New York) board of education has prepared tables annually since 1922 which show the percentage of expenditures for its major subdivisions during each month of the fiscal year. At the beginning of each fiscal year, the corresponding percentages in these experience tables, usually the averages of the two latest completed fiscal years, are applied to the appropriation for each major subdivision of the authorized budget. This method of allotment may be objected to mainly on the ground that it is based upon a past rate of expenditure rather than upon future needs or requirements. It looks to the past rather than to the future. It assumes that the work of the spending agency has been fully developed and has become more or less stable. Such is never really the case. Furthermore, it tends to mold all future allotments in the form determined by the two fiscal years on whose average the first allotment is made. The third method of making allotments has as

its basis a work program. As we have already indicated, this is the most desirable method from the standpoint of budgeting. While it makes use of past experience, it permits the allotments to be shaped according to future policy and needs.

*Preparation and Revision of Allotments.*—The requests for allotments should be prepared in all cases by the spending agencies. It is essential to good administration that the head of each spending agency should be required to think seriously about the proposed work of his agency in relation to the total amount of money which has been made available for its use. Having done so, it should be comparatively easy for him to allocate this money to the different quarters of the fiscal year.

In order to prepare the allotments, the spending agencies should be furnished with a suitable form. Such a form is presented herewith in Figure 45. It is designed for use in local governments, particularly cities; however, it can be used in state governments. It may be any standard size, preferably 14 by 17 inches with the caption running the narrow way.<sup>1</sup> The allocation which is prepared at the beginning of the fiscal year is the "original allotment"; each subsequent change made in the original is an "amended allotment." If any deductions are made from the gross appropriation, such as a percentage of salaries for a pension reserve, these are computed in the box at the top of the form. The net appropriation is then carried to the first line underneath the columnar headings and distributed as a total to the four quarters and the reserve. Beneath this line, the details are presented according to the major groups shown on the work program. Lengthy itemization should be avoided; nothing like the same detail should be presented here as in the case of the estimates. Suborganization units (bureaus, divisions, or institutions) supported by major activities, or suborganization units supported by major object groups, preferably the former, are quite sufficient on the allotment form. Each lump sum appropriation should be allocated on a separate form.

The allotment form should be prepared in triplicate by the spending department or agency, all three copies being sent to the executive or his budget office. Each allotment should be supported by a full explanation of the work program for the year. The executive, either personally or through his budget staff agency, should review the requested allotments in the light of the work program. If he deems it necessary, he should have the right to revise, alter, or

<sup>1</sup> See above, with respect to the estimate forms, p. 254.



Title or Number of Appropriation.....

Original Allotment } Cross out one which does not apply. If  
Amended Allotment } amended, give original allotment num-  
ber in upper right hand corner.

Department.....  
Date Filed.....  
Approved.....  
Name of Responsible Officer

Fund Appropriated	Gross Approp- riation	Deductions (If Any)	Net Appro- priation

Nature of Proposed Expenditures Based on Work Program I	Total Net Appropriation 2	First Quarter 3	Second Quarter 4	Third Quarter 5	Fourth Quarter 6	Reserve 7	Memoran- dum 8
Total							
Details							

FIGURE 45. Suggested Allotment Form for Local Governments.

change the allotments before approving them. Any revision should be made after conference with the head of the spending agency concerned, so that he will understand just how and why his work program has been changed. The executive should send a copy of the approved allotments to the controller or other chief financial officer, also a copy to the head of the spending agency concerned, and he should retain a copy in his office or in that of his budget staff. The allotments as filed with the controller or other financial officer should be made the basis of accounting control over the expenditure of the appropriations.

Whenever the head of any spending department or agency thinks it necessary by reason of changed conditions, he should be allowed to revise his work program at the beginning of any quarter during the fiscal year. He should then submit the revised program to the executive with a request for an amendment of the allotments for the remaining quarters of the year. The form described above (Figure 45) may be used in requesting the amended allotments. If, upon a reëxamination of the work program, the executive should decide to approve the amended allotments, then the same procedure should be followed as in making the original allotments. In this way budgetary control may be established at once on the basis of the amended allotments.

In order to provide some leeway for meeting contingencies which may arise during the fiscal year in the expenditures for administration, operation and maintenance of the various spending departments and agencies, the executive should require the head of each such department or agency, in making the original allotments, to set aside 5 or 10 per cent of the total amount appropriated as a reserve. At any time during the fiscal year, this reserve, or any portion of it, may, with the approval of the executive, be returned to the appropriation to which it belongs and be added to any one or more of the allotments. Whenever such action is taken the controller or other financial officer should be notified at once, so that the proper adjustments can be made in the accounts. It seems hardly necessary to return a definite percentage of the reserve each quarter whether it is needed or not. During the fiscal year, the unexpended and unencumbered balance of any quarterly allotment should be carried to the reserve. This would increase the reserve. Any unused portion of the reserve, remaining at the end of the fiscal year, should be regarded as an unexpended balance of the appropriation.

Monthly reports on the rate of expenditure under the approved

allotments should be prepared by the controller or other financial officer.<sup>1</sup> These reports should be gotten out as early as possible after the close of the month; they should not be delayed beyond the tenth day of the succeeding month. A copy of each report should be sent to the executive, or his budget officer, and also to the spending agency concerned. We shall discuss this again under the next chapter.

**Adjusting Actual to Authorized Expenditures.**—Some discrepancies are almost certain to arise during the fiscal period between the actual and the authorized expenditures which have to be adjusted in one way or another. There are two main causes of such discrepancies. One cause is the overexpenditure of appropriations, which may be due to detailed and rigid itemization, to estimating too far ahead of the fiscal period, to general laxity of budgetary control, or to a combination of these conditions. The other cause is the rise of emergencies, calling for expenditures which could not be anticipated at the time the appropriations were made.

There are, in practice, six general methods of making adjustments between the actual and the authorized expenditures, which involve the use of the following: (1) corrective budgets, (2) supplementary or additional appropriations, (3) deficiency appropriations, (4) transfers, (5) administrative grants or appropriations, and (6) gross appropriations against contingencies. The first three methods are essentially legislative in character; the fourth is sometimes legislative, sometimes administrative; while the last two are generally administrative.

The "corrective budget" is a term derived from European practice. It means a second budget passed sometime during the fiscal year, the purpose of which is to adjust the original budget. Thus two budgets are passed for the same fiscal year, one before the year begins and the other near the middle of the year. Both are complete budgets from the standpoint of expenditures and income, the second, or corrective, budget superseding the first, or original, budget as soon as it is adopted. This amounts practically to budgeting for six months at a time. Besides, it involves double consideration of the financial proposals on the part of the legislative body. While corrective budgets have been used at one time or another in certain European countries, notably France and Italy, they have not been employed in the United States. Our governmental units do not com-

<sup>1</sup> This assumes, of course, that the general accounts of the government are centralized in one office. See below, pp. 529-532.

pletely make over their budgets during the fiscal year.<sup>1</sup> We may, therefore, dismiss this method as being foreign to American practice.

The voting of supplementary or additional appropriations is a very common practice in American governments, especially in the local governments. Such appropriations are passed at various times during the fiscal year and usually augment the appropriations already voted. This is more likely to occur where the legislative body meets frequently, as in the case of city councils. Not all supplementary appropriations are additions to authorizations already provided in the original budget; sometimes such appropriations are made for entirely new purposes. This means that the expenditure side of the budget is being not only supplemented but more or less refashioned during the year. This is a serious matter from the standpoint of budgetary control, since very little attention is usually given to the income available for financing the supplementary appropriations when they are adopted. The original budget can in this way be completely thrown out of balance. In order to prevent such a situation from arising, limitations are sometimes imposed on the legislative body in voting supplementary or additional appropriations. For example, the city manager charter of Cleveland, Ohio, provides (sec. 67) that the council can vote additional appropriations during the year only when the "total accruing revenues of the city [government] shall be in excess of the total estimated income" as set forth in the budget. But even this provision does not prevent the council from disrupting the budgetary balance. An unusual inflow of revenues during the early part of the fiscal year might give the impression that the income counted on in the budget would be exceeded. The council would then make additional appropriations only to find the revenues had declined for the remainder of the year, resulting in a deficit.

Deficiency appropriations are usually made at or near the end of the fiscal year. They are in effect supplementary or additional appropriations which are made after the obligations have been incurred rather than in anticipation of them. The spending agencies are permitted to exceed their appropriations and the claims thus originated are later presented to the legislative body for action. These claims cannot, as a general rule, be refused by the legislative body; they must be provided for no matter what may be the effect on the budget. Such practice, if carried too far, may therefore break

<sup>1</sup> We do have what are called "supplementary budgets," but these are really only additions to the original budget proposals which are submitted to the legislative body by the budget making authority before the original proposals are finally voted. They are not corrective budgets. See above, pp. 393-398.



down all budgetary control. It has at times reached the danger point in the national government. Year after year Congress has been asked to pass a large number of deficiency appropriations. Although the operation of the national budget system has tended to reduce the deficiency appropriations, they are by no means eliminated.<sup>1</sup> Several state legislatures also follow the practice of making deficiency appropriations, not realizing that such appropriations constitute perhaps the most undesirable method of adjustment between the actual and the authorized expenditures.

The power to make transfers between appropriations is widely used, not only in this country but abroad. In England, it is known as "virement." It may be exercised directly by the legislative body, or it may be delegated by this body to the executive or some special agency. While transfers are commonly made in the appropriations of our state and local governments, they are not used except to a very limited extent in the national government. Congress has only granted the right to make transfers with respect to the appropriations contained in the agricultural appropriation act. For several years this act has carried a section which provides that, with the approval of the Secretary of Agriculture, not to exceed 10 per cent of any appropriation item for the general expenses of the bureaus, divisions, or offices within the department may be available interchangeably for expenditure in connection with the other items. In many state and local governments, there is no restriction on the transfer of appropriations except that imposed by virtue of the fund requirements; that is, moneys appropriated from one special fund are not ordinarily transferable to and expendable under appropriations made from another special fund. Sometimes, other restrictions are imposed, such as limiting the transfers to certain classes of expenditures, or to a definite part of the fiscal year. The uniform budget law for cities of the state of Washington, for example, provides that transfers may not be made between certain general classes of expenditures: viz., salaries and wages, maintenance and operation, capital outlay, and interest and debt redemption. Again, the uniform budget law for New Jersey municipalities provides that transfers may not be made except during the last two months of the fiscal year.

The power to transfer appropriations appears to be generally regarded as a legislative function. In local governments, where the legislative body meets frequently throughout the year, it usually reserves to itself the right to pass on all transfers. This is true in the case of most of the large cities, whether they are operated under

<sup>1</sup> See above, pp. 394-396.

the manager or the mayor forms of government. Where the legislative body does not ordinarily meet but once a year or a biennium, as in the state governments, the right to make transfers is usually delegated to the executive or some specially constituted agency. In Kansas, for example, transfers are authorized by the governor; in New Jersey, they are authorized by the state house commission, consisting of the governor, the comptroller, and the treasurer; and in Ohio, they are authorized by the controlling board, consisting of the governor, or his representative, the attorney general, the auditor, and the chairmen of the finance committees of the senate and of the house of representatives. The legislature, in the last instance, has retained direct representation on the body which makes the transfers.

Transfers are, of course, the inevitable result of detailed appropriations. They are the means of giving, as is often stated in budget legislation, "some degree of flexibility to the appropriations." They seem to provide the easiest way of getting around the numerous restrictions which highly itemized appropriations place upon the administration. Transfers, as such, are not particularly objectionable; they are merely indicative of a method of making appropriations which should be changed. When lump sum appropriations are made, as we have suggested in an earlier chapter, the need for transfers is immediately reduced to a minimum.<sup>1</sup> It may then be necessary to transfer between the lump sums appropriated to organization units, but that is all.

One should not overlook the fact, however, that the use of transfers may, in the end, defeat the very purpose which the legislative body had in mind when it voted the detailed appropriations. Such appropriations may be completely changed during the course of the fiscal year by the extensive application of the power to make transfers. The recent experience of the state government of Indiana supports this view. In the budget report to the governor for the biennium, 1927-1929, the state budget committee says (p. 3) that the original appropriations have been changed by additions or deductions on account of transfers to such an extent that in many instances there is little or no resemblance between them and the final authorizations. In other words, the detailed stipulations of the legislature are rendered more or less null and void before the fiscal period is over by the great number of transfers between the various appropriations. This means that the transfers have practically destroyed the object of the segregated appropriations. It seems rather comic that legisla-

<sup>1</sup> See above, pp. 144-146.

tive bodies should persist in making detailed appropriations only to see them unmade later by the transfer method.

Administrative grants or appropriations are not uncommon in many countries. The Governor General of Canada, for example, may draw his warrant upon the treasury in the event moneys, which have not been authorized, are needed to meet certain contingencies arising during the fiscal year.<sup>1</sup> This has been criticised as being a usurpation of legislative prerogatives. Nevertheless, we have something of a similar character in some of our state governments, notably in Ohio and Vermont. There is an emergency board in Ohio, consisting of the governor, the chairman of the senate finance committee, and the chairman of the house finance committee. In case of a deficiency in any appropriation for the operating expenses of a state agency, or in the event of an emergency requiring the expenditure of state funds, the emergency board has authority, upon proper application, to create obligations within the scope or purpose of the original appropriation or to expend money not specifically provided for by law. Vermont has a board by the same name, which consists of five members, the chairmen of the ways and means committees of the two houses of legislature being added to the three officers mentioned above. This board has somewhat broader powers than that of Ohio; in the words of the law, it has "authority to make any expenditures necessitated by unforeseen emergencies and may pledge the credit of the state for the same." It is, in brief, permitted to borrow money to meet the obligations which it creates. Of course, in both Ohio and Vermont the legislature is represented on the board, hence the board's action cannot be said to be purely administrative in character. These boards may even be regarded, in a way, as being an extension of the legislature over the period when it is not in session.

Gross appropriations, which can be drawn upon whenever contingencies or emergencies arise, are frequently found in our state and local governments. Some times they are erroneously called "funds," but more often they are referred to as "contingency" or "emergency" appropriations. The procedure for setting up and using a gross appropriation for contingent purposes is simple. It is authorized by the legislative body, just like any other appropriation, at the time the budget is acted upon. From time to time during the

<sup>1</sup> In England, expenditures in excess of appropriations can be made with the sanction of the Treasury. Such expenditures are met out of the "civil contingency fund," which is a general emergency fund for the whole government, or out of extra receipts. In any case, these expenditures must be subsequently regularized by what is called an "excess vote" of the House of Commons.

fiscal period, parts of it are transferred to other appropriations or apportioned directly to meet urgent expenditure needs either by the legislative body or by some administrative agency. The total amount of such appropriation varies, depending upon legal provisions or practice; it may bear a definite relation to the aggregate expenditures of the governmental unit, or it may not. For example, the uniform laws governing local budgets in both New Jersey and Ohio provide that an appropriation for contingencies may be set up by each governmental unit not to exceed 3 per cent of its total budget (in New Jersey), or 3 per cent of its total current expenses (in Ohio). The city of Boston sets up a "reserve fund" of a half million dollars in each annual budget for contingent expenses and transfers. This amounts to about 1 per cent of the total budget. The state of New Jersey has an "emergency fund," which at one time amounted to a half million dollars for each fiscal year, but it has recently been reduced to a quarter of a million dollars. This appropriation is expended under the direction of the state house commission (governor, comptroller, and treasurer); it is commonly used to supplement other appropriations rather than for strictly emergency purposes. The state of California provides a similar "fund," which, for the biennium, 1927-29, amounted to a million dollars. It is expended by authority of the state board of control (governor, state controller, and director of finance) for emergencies. Emergencies, however, are loosely defined as "contingencies for which no provision or insufficient provision has been made in the appropriation act." Such appropriations or "funds" as these are unnecessary, except to meet real emergencies. Under proper budgetary control, all ordinary variations between the actual and the authorized expenditures can, and should, be met without resort to the use of a gross appropriation.

The various devices for adjusting actual to authorized expenditures, which we have described above, are largely mere expedients rather than genuine aids to budgetary control. If they are applied on an extensive scale or without careful discrimination, they may entirely change the original budget during the fiscal period or completely throw it out of balance. Such results tend to destroy real budgetary control. How then should we go about making the necessary adjustments between actual and authorized expenditures? There are two kinds of adjustments which need to be made during the fiscal period. One consists of ordinary adjustments, due to minor contingencies which arise currently in the conduct of any



business; the other of extraordinary adjustments, which are necessary by reason of emergencies that cannot be anticipated.

All ordinary adjustments can be adequately taken care of through a small reserve set up in connection with quarterly allotments which are based upon a work program. We have explained how this can be done in the preceding section of this chapter. By this method, expenditures may not only be adjusted to meet all ordinary variations, but they may also be adjusted to diminished revenues during the fiscal year, that is, revenues which do not materialize to the extent of the budget estimates. The latter is most important, at times, as we shall explain in the subsequent part of this chapter. Of the various other devices mentioned above, only the corrective budget makes possible this adjustment between expenditures and unrealized revenues.

In making extraordinary adjustments in expenditures as a result of emergencies, it may be necessary to authorize new or additional appropriations during the fiscal year. Such appropriations, however, should always be limited to real emergencies. In order to do this, the term "emergency" must be defined, which is not an easy matter. Perhaps one of the best definitions of this term is to be found in the uniform budget law for cities in the state of Washington (Ch. 158, Laws of 1923, sec. 6) which speaks of an emergency as being "caused by fire, flood, explosion, storm, earthquake, epidemic, riot or insurrection or for the immediate preservation of order or public health, or for the restoration to a condition of usefulness of any public property the usefulness of which has been destroyed by accident, or for the relief of a stricken community overtaken by calamity, or in settlement of approved claims for personal injuries or property damages, exclusive of claims arising from the operation of any public utility owned by the city or town, or to meet mandatory expenditures required by laws enacted since the last budget was adopted." In making appropriations for emergencies in local governments, more than just a majority vote of the legislative body is usually required; ordinarily a two-thirds' vote—sometimes, even a unanimous vote—is necessary. Such appropriations are generally financed from surpluses built up in the past, or from unanticipated revenue collections of the current year, or from temporary loans. If from temporary loans, definite provisions should be made for the repayment of these loans in the succeeding budgets. In state governments, the governor or a special agency may be given the power to authorize expenditures for emergencies, or the legislature (if not in regular session) may be called into extra session by the

governor to vote such expenditures. Provisions should be made for financing such expenditures at the time they are authorized or in connection with the succeeding budget. Otherwise, the budget balance may be endangered by these expenditures. A somewhat different situation exists in the national government, especially in the case of war emergencies. These require a special procedure which may vary depending upon conditions. England resorts to a "vote of credit" for such emergencies.<sup>1</sup>

**Scheduling of Anticipated Income.**—Control over the income side of the budget is directed toward one end, namely, to have cash on hand to pay all bills promptly. This is without doubt one of the essentials in budgetary execution. It may be promoted in different ways, more especially by making all collections that should be made, by seeing that these are made promptly, by centralizing all moneys in the general treasury, and by removing as far as possible the restrictions which special funds impose on spending.<sup>2</sup> By giving special attention to these things, the chief executive or administrator is enabled to marshal the resources of the government so as to use them to the best advantage in meeting the expenditure requirements of the budget.

How can the executive or administrator know that he will have adequate cash to meet all bills as they arise during the fiscal year? Obviously, it is necessary to employ some method of scheduling the revenues and receipts which are anticipated during the fiscal year. This can be done without difficulty.

A schedule of anticipated income may be made for the fiscal year by quarters or by months. It should follow the same calendar divisions as those used in the work program and the expenditure allotments. That is, when the work program is on a quarterly basis, the schedule of revenues and receipts should be on the same basis. However, the quarters may be subdivided so as to show the estimated revenues and receipts of each of the three months, thus enabling the executive or administrator to keep a closer watch on the inflow of governmental income.

The schedule should show each source of revenue or receipts; however, where there are a number of related or similar sources, they may be grouped in order to shorten the schedule. The amount of revenue or receipts accruing under each source should be estimated or calculated on the basis of existing legislation and in the light of experience with respect to previous collections. This should be done for the entire fiscal year, the total being then distributed

<sup>1</sup> See above, p. 395.

<sup>2</sup> See below, pp. 534-539.

to the quarters or months of the year according as the collections are expected to reach the treasury. The sources of income belonging to each fund should then be brought together so that a total for the fund may be obtained not only for the fiscal year but also for the different quarters or months of the year. In this way, the failure to realize the full amount anticipated for any fund or period would be known in time for the executive to take some action about it. Collections might be speeded up, fund balances might be transferred, temporary borrowings might be resorted to in anticipation of later collections, or adjustments might be made in the expenditure program so as to maintain the necessary balance between income and outgo.

It is important to consider the schedule of anticipated income along with the work program of the government and the expenditure allotments. The allotments should not be finally approved at the beginning of the fiscal year until they have been compared with this schedule. Such comparison may show that it is advisable to rearrange the allotments so as to defer some expenditures until there is estimated cash available in the treasury to meet them. It is often possible to do this with respect to certain expenditures, such as those for improvements which are met out of current revenues. However, when the cost of improvements is met out of proceeds from bonds, the necessary cash can usually be had at any time in the fiscal year that the work can be undertaken. The schedule of receipts from bond sales can, of course, be prepared with this in mind. The only caution that needs to be exercised here is against the sale of the bonds too far ahead of the actual expenditure need, the government thus incurring interest charges when the receipts are unused for some time.

The schedule of anticipated income for the fiscal year should be prepared by the central fiscal office of the government and filed with the budget staff agency of the executive at the same time the original allotments of expenditures are filed. This schedule may be revised quarterly or semiannually, if conditions seem to warrant it. The Treasury Department of the national government prepares a statement of anticipated revenues and receipts for each fiscal year at the opening of that period. Six months later, it revises this statement in the light of changed conditions. However, it does not attempt to apportion the revenues and receipts to quarters, so there is no indication of the rate of inflow of the national income. In a few state governments, a rough estimate of anticipated income is made, but there is little or no attempt at the systematic scheduling

of expected receipts for the months or quarters of the fiscal year. In some cities, particularly those with the manager form of government, a definite schedule of anticipated revenues and receipts is now prepared at the beginning of each fiscal year, usually on a monthly basis.<sup>1</sup>

**Maintaining a Working Balance Between Outgo and Income.**—The vital element in budgetary control, as we pointed out in the beginning of this chapter, is to maintain throughout the fiscal year a balance or equipoise between the outgo and the income of the government. No executive or administrator can properly supervise the government's outgo without relation to its income, or the government's income without relation to its outgo. The satisfactory handling of one side of the budget involves the other side; at no time can the two sides be divorced.

There are two phases of the problem of maintaining a budgetary balance. One phase involves the adjustment of the tax or revenue calendar to the expenditure demands. Once this has been done, the other phase has to do merely with keeping in the treasury from month to month sufficient cash to meet promptly all bills approved for payment.

The adjustment of the tax calendar so that the incoming revenues will approximately meet the expenditure demands during the fiscal year is not always an easy matter. This is especially true with reference to the local governments of several states. In Massachusetts, for example, the tax collecting period of the cities begins about nine months after the opening of their fiscal year. This lag of the tax collecting period behind the fiscal year forces the city authorities to finance two thirds or more of the year by a surplus carried over from the preceding year (which is rarely done in practice), or by resort to temporary borrowing on tax anticipation notes. The obvious remedy in this case is either to move the tax collecting period backward so that it will come at the beginning of the fiscal year, or to push the fiscal year forward until the same result is obtained. To do either one of these things, however, is a difficult task, since many related factors are involved. But it can be done. By requiring the general property taxes to be paid in two installments, some city authorities are able to have one installment paid near the beginning of the fiscal year and the other six months later, thus making it more satisfactory from the standpoint of financing the city government and perhaps easier on the taxpayers. However, city governments are not exceptions in this

<sup>1</sup> See below, pp. 501-506.



regard; it is highly desirable in any government that the dates of collecting its taxes and other major revenues should be adjusted as nearly as possible to its expenditure needs during the year. When this is done, the problem of managing the government's finances is greatly simplified.

Having made the best possible adjustment between the tax collecting dates and the fiscal year, there may still be periods during that year when the outgo will run ahead of the treasury surplus. Obviously, the only thing that can be done in such cases is to resort to temporary borrowing. This, of course, entails interest charges on the short time loans. But it is better for the government to pay this added expense than to defer the payment of its bills. In the long run the government will probably pay less by borrowing money to meet its bills promptly. But borrowing in anticipation of the collection of taxes sometimes leads to abuses. Some local governments have let their tax anticipation notes pile up indefinitely without attempting to retire them. This situation has prompted certain state legislatures to enact general laws compelling the local governments to retire such notes. In New Jersey, the payment of all tax anticipation notes of any local government, which may not already have been retired, must be provided for in the budget of the fourth year after issuance.

Where a certain percentage of local property taxes is customarily uncollectible each year, it is frequently the practice to add an equivalent amount to the expenditure side of the budget before balancing it, or to increase the tax rate sufficiently to allow for the uncollectibles and yet balance the budget.<sup>1</sup> This naturally gives the executive some leeway in meeting the expenditure requirements during the fiscal year. Should more taxes be collected than have been anticipated, the treasury will end the year with a small surplus, which is always a desirable condition from the budgetary standpoint.

Finally, we should note briefly the possibilities of reducing the authorized expenditures in order to bring about a balance between the income and the outgo of the government. When the anticipated income of the government cannot be realized during the fiscal year, what can be done to bring the authorized expenditures in line with it? Of course, the obvious procedure is to cut down the authorized expenditures. But this is not as simple as it appears to be on the face of it. However, some governments have proceeded on the assumption that nothing difficult is involved. For example, the city charter of Baltimore (sec. 36) provides that in the event of a failure

<sup>1</sup> See above, pp. 65, 70, 325-326.

to realize sufficient income from revenue and taxation to meet the authorized expenditures "there shall be a *pro rata* abatement of all appropriations, except those for the payment of state taxes and the principal and interest of the city debt, and such amounts as are fixed by law. . . ." Assuming for the moment that the reduction of certain appropriations is possible, is it not rather absurd to think of a "*pro rata* abatement" of all of them? Certainly, it is not desirable to reduce some appropriations to the same extent as others. Since the appropriations of the Baltimore city government are made in considerable detail, it would be necessary under this charter provision to abate all of them in the same proportion, whether they be for salaries of permanent employees or for operating expenses.

The only satisfactory method of reduction from the standpoint of the administration, it seems, is on the basis of a revision of the work program for the fiscal year. Certain authorized expenditures may be reduced by this method without greatly affecting the indispensable work of the various governmental departments and agencies. But there are some limitations even in this case. Expenditures for services, like police and fire protection in cities, cannot be greatly reduced; at least it is usually inadvisable to do so. Again, the popular feeling is that educational work should proceed without having its expenditures curtailed. Whatever abatement, therefore, is made in the authorized expenditures must largely fall upon the other services of the city government. Without complete reorganization of these services, this reduction cannot be very large in any one year. We are assuming, of course, that all the services are necessary and that none of them is to be neglected by reason of the expenditure reductions. What we have said with reference to cities applies equally to other local governments and to the larger units of government.

One other point deserves mention in this connection. Governmental revenues usually fall off by reason of business or industrial depressions. Taxes do not flow into the public treasury so readily under these circumstances. Yet, it has been recently proposed to relieve unemployment and stabilize industry by coöperation between governmental units, principally the national and state governments, in promoting public construction work during periods of depression.<sup>1</sup> This is, in effect, asking the governments to spend most heavily on construction work when it is hardest to raise the

<sup>1</sup> This idea has been advanced notably by William T. Foster and Waddill Catchings in their recent book called, *The Road to Plenty*, (publications of the Pollak Foundation for Economic Research, No. 11), 1928.

funds from current sources for that purpose. If the plan should be carried out, the governments would have to become the greatest employers of labor and purchasers of materials at those periods when it would seem by reason of diminished receipts from taxes and other revenues that they ought to be retrenching on expenditures. The financing of it would, of course, require the building up of large reserves from current revenues or the issuance of bonds on an extensive scale. But this might be done on the understanding that the social utility of the plan far outweighs the mere matter of its financing.

## CHAPTER XVI

### THE BUDGET IN OPERATION

WE NOW come to the budget in actual operation—to the day-to-day administration of the financial plan. The other steps in the budgetary process, which we have discussed in the foregoing chapters, are merely preliminary to this one. The estimates may have been prepared and revised with great care; the budget document may have been formulated in the most painstaking manner; the budget may have received the sanction of the legislative body after the most careful scrutiny; the tax calendar may have been fully adjusted to meet the expenditure requirements of the government; but all these steps are of little or no consequence in real budgeting if the financial plan is not properly administered. And how? Executive ability and direction are the prime requisites to this end.

By what means can the executive most effectively administer the budget? Two things seem to be indispensable. In the first place, the executive must keep in close touch with the financial transactions of the government, not necessarily in detail but in the aggregate. In order to do this, he should be supplied at regular intervals with correct and adequate information on these transactions. This information should be summarized and presented in such manner that its significance can be quickly and easily grasped. The personal ability of the executive, however great, cannot overcome the handicap of poorly prepared, incorrect, scanty, or belated information. In the second place, the executive must have the assistance of a modern fiscal process. Such a process embodies the machinery and methods which are necessary to produce the information noted above and to perform the financial functions requisite to the execution of the budget. These functions relate primarily to accounting, auditing, collection and disbursement of moneys, personnel supervision, and purchase of supplies and materials.

Before proceeding to a discussion of the nature and arrangement of the information required in administering the financial plan, let us consider briefly the preliminary work which must be done between the time when the legislative body approves the budget and votes the budget bills and the time when the actual execution of



the budget begins. Usually a minimum period of from two weeks to a month is required for this work, depending upon what is done and also upon the size of the government. It may be that the executive will take no action during this period looking toward the preparation of a work program and the allotment of appropriations or the setting up of a schedule of anticipated revenues and receipts. He may think that the proposed budget which he submitted to the legislative body, irrespective of subsequent modifications by that body, represents a sufficiently accurate program for the administration to follow during the fiscal year. This happens to be the attitude which is commonly taken by the executives of state and local governments in this country much to the detriment of correct and effective budgeting. In such cases, the opening of certain general accounts, particularly appropriation accounts, is all that must be done before the budget is ready for execution.

But if the executive is interested in establishing real budgetary control, he will undertake to apply the devices which we have discussed and recommended in the preceding chapter. As soon as the budget has been acted on by the legislative body, and if possible, before the fiscal year opens, the executive will require each spending agency to prepare a work program on the basis of the authorized appropriations. This program should involve the allotment of these appropriations to definite periods of the fiscal year, namely, months or quarters, preferably the latter. The executive will also have a schedule of anticipated revenues and receipts for the ensuing fiscal year prepared by his budget agency or central accounting office.<sup>1</sup> He should study the proposed allotments, making such adjustments in them as seem necessary in the light of the work to be done and the prospective inflow of income. A copy of all allotments, as approved by the executive, will then be sent to the central accounting office and the controller will open the appropriation and other general accounts of the government for the ensuing fiscal year. These accounts, preferably kept on the accrual basis,<sup>2</sup> should be ready for entries on the first day of the fiscal year. Thus the preliminary work of the executive with respect to the execution of the budget is concluded.

As soon as the fiscal year gets under way, the essential information needed in the course of financial management ought to be produced currently through the accounts. Undoubtedly, the general

<sup>1</sup> See the preceding chapter for descriptions of the work program, allotments, and schedule of anticipated revenues and receipts.

<sup>2</sup> See below, pp. 522-527.

nature of this information and the promptness with which it is supplied to the executive are determined to a large extent by the character of the accounting and reporting system of the government. But this is a matter which we shall discuss later in this chapter. For the present we are concerned solely with the character of the information, not the most efficient system of obtaining it.

**The Information Requisite to Executing the Budget.**—What is the general nature and arrangement of the information necessary to executing the budget? This information includes most of the data which we have outlined above in Chapter VI. There is no essential difference between the information required in the execution of the budget and that needed in the preparation of the budget. The preparation and the execution of the budget, as we have already pointed out, are merely separate phases of one procedure. In the execution of the budget, the financial information is used currently, that is, as soon as it is developed, which may be daily, weekly, monthly, or quarterly, depending upon the purpose it is to serve. As the budget is being carried out, this information is accumulated, digested, and summarized for the entire fiscal year to which it relates. Furthermore, it is compared with similar data pertaining to the preceding fiscal year. In this way, the essential facts are brought out with respect to the annual cycles of the government's fiscal experience. The information in this latter form is used in the preparation of the next succeeding budget. The accumulated data of one or two previous years should always be available, since these serve as a guide both to financial management and to budget planning.

As the budget is being carried out during the fiscal year, the chief executive or administrator must have certain information relative to the current outgo and income of the government. This information may be broadly comprehended by two questions. Are the various departmental work programs being carried out efficiently and within the limits of the allotted appropriations? Are the income estimates being realized according to the schedule of anticipated revenues and receipts?

The information indicated by the foregoing questions should be reported periodically to the executive. This information may be furnished daily, weekly, semimonthly, monthly, or quarterly. In some cities, reports on expenditures are made on a daily basis. A monthly basis, however, would seem to be adequate for purposes of budgetary control. There may be conditions under which it would be advisable to have semimonthly reports. Some cities and

states provide for daily reports on receipts and disbursements. Under normal conditions the executive can keep properly informed with respect to receipts and disbursements through monthly reports. There are times, however, when the condition of the treasury may require special reports. Such is the case when the immediate demands for cash threaten to exceed the cash on hand. Regardless of the frequency of these special reports, the executive should demand general reports on both income and expenditures at regular intervals.

The general financial reports should be submitted to the executive in summary form with supporting statements giving the detailed information. This arrangement, for obvious reasons, enables the busy administrator to get at the essential facts quickly and easily. We shall discuss, first, the summary statements needed for purposes of budgetary control, and, second, the supporting schedules and detailed reports.

*Summary Statement for Purposes of Budgetary Control.*—A summary statement, or a "budgetary control sheet" as it is sometimes called, may be produced for the whole government. This statement is the means of presenting to the executive a complete picture of the governmental operations for a given period, just as the general budget summary furnishes a complete picture of the proposed financial plan.<sup>1</sup>

It is possible to set up the summary statement for budgetary control purposes on a single sheet. An interesting example of an attempt to do this for a small city government is reproduced herewith in Figure 46. This sheet applies to Brunswick, Georgia, a city on the southeast coast of that state with a population of about 15,000. It is the work of the city manager, E. C. Garvin; it is his chief means of keeping informed with respect to the execution of the city budget. As will be noted from the reproduction, this sheet is divided into two parts: "receipts" and "expenditures." By showing the receipts and the expenditures in this way, the resulting balance, or "cash on hand" as it is called, is shown at the end of each month of the fiscal year. The total operations of the city government appear on the sheet, irrespective of funds or of the character of the expenditures.

It will be seen from the figure that the sources of receipts are listed under fifteen main heads. An estimate of the receipts to be received during each month from each of these sources is made at the beginning of the fiscal year. This estimate, which is the

<sup>1</sup> See above, pp. 69, 73 and 75.

## CITY OF BRUNSWICK, GEORGIA, 1928

## RECEIPTS

Item	January	February	March	April	May	June	July	August	September	October	November	December
1 Property Tax	Expected Actual	\$12,108 10,943	\$33,000 16,106	\$45,108 29,624	\$70,084 37,835	\$92,588 44,396	\$117,041 119,010	\$163,335 123,555	\$170,220 131,059	\$175,206 140,716	\$210,341 177,578	\$237,405
2 License Tax	Expected Actual	11,065 13,232	20,335 21,742	25,100 27,168	26,970 28,143	28,240 29,033	28,080 29,211	20,570 30,056	29,050 30,399	30,535 30,624	30,785 31,111	31,000
3 Fines and Forfeitures	Expected Actual	1,750 1,375	3,500 3,401	5,250 5,324	7,000 7,003	8,750 8,684	10,500 10,655	12,250 12,090	14,000 13,332	15,750 15,393	17,500 16,543	21,000
4 Street Tax	Expected Actual	000 3	000 132	000 189	260 327	1,170 4,110	3,367 5,653	4,760 6,239	6,482 6,279	6,972 6,282	7,000 1,840	7,000
5 Marks, Brands, Jail Costs, and Impounding Fees	Expected Actual	170 202	340 293	510 464	680 580	850 695	1,015 1,046	1,080 1,183	1,515 1,383	1,680 1,463	1,840 1,593	2,000
6 Dog Tax	Expected Actual	000 16	3 24	168 124	533 972	823 1,076	833 1,076	835 1,076	910 1,076	1,000 1,000	1,000 1,076	1,000
7 Leases and Rents	Expected Actual	400 1,025	400 1,295	000 1,432	1,050 1,742	1,050 2,012	1,050 2,012	2,250 2,107	2,450 2,108	2,450 2,628	2,550 3,178	3,000
8 Permits	Expected Actual	25 76	50 130	75 171	100 255	125 285	150 394	200 456	225 624	250 828	275 978	300
9 Sale of Cemetery Lots	Expected Actual	25 16	50 39	75 204	100 254	125 319	150 463	200 484	225 579	250 719	275 754	300
10 Paving Executions	Expected Actual	500 2,096	1,000 2,096	1,500 2,096	2,000 2,096	2,500 2,096	3,000 2,096	3,500 2,096	4,000 2,096	5,000 2,149	5,000 2,149	5,000
11 Redemptions, Land Bought at Sales	Expected Actual	100 134	200 289	300 388	400 411	500 512	575 731	650 840	725 874	875 1,020	950 2,454	1,000
12 Auto Registration and Chauffeurs' License	Expected Actual	400 688	700 1,058	900 1,085	1,000 1,104	1,050 1,127	1,100 1,156	1,150 1,142	1,200 1,152	1,200 1,159	1,200 1,161	1,200
13 Brunswick-St. Simons Highway	Expected Actual	380 —	1,045 —	1,900 —	2,945 —	4,940 5,770	7,980 5,770	11,210 5,770	14,015 3,770	17,000 19,770	18,520 19,770	19,000
14 Interest	Expected Actual	410 237	820 1,023	1,230 1,286	1,640 1,473	2,050 1,668	2,470 1,768	2,890 1,866	3,310 1,843	4,150 2,150	4,570 2,170	5,000



35 All Other Sources		Expected	200	400	600	800	1,000	1,250	1,450	1,650	1,850	2,050	2,250	2,500
		Actual	138	592	5,414	5,897	7,201	8,116	8,537	8,593	8,768	9,038	9,113	
Grand Total Income		Expected	\$28,433	\$61,843	\$83,625	\$116,462	\$145,761	\$179,461	\$235,280	\$247,106	\$257,202	\$267,068	\$305,806	\$336,705
		Actual	30,181	48,220	74,909	88,092	108,084	189,138	107,437	202,024	224,057	237,852	277,554	

		Expected	1,288	3,060	4,460	5,950	7,300	8,730	10,080	11,430	12,910	14,220	15,550	16,920
1 Executive Departments		Actual	1,359	2,905	4,409	6,084	7,589	8,849	10,369	11,936	13,345	14,659	16,549	
2 Police Department		Expected	2,250	5,702	8,952	13,788	16,324	18,855	21,535	24,167	26,707	29,248	31,084	34,540
		Actual	2,828	5,554	9,421	12,231	15,511	20,031	23,031	26,700	28,658	30,646	33,520	
3 Fire Department		Expected	1,501	6,103	8,079	11,651	13,207	14,742	17,362	18,931	20,488	22,034	23,577	26,255
		Actual	4,337	6,020	7,758	9,283	11,280	14,817	16,407	17,161	17,809	20,276	22,150	
4 Public Works Department		Expected	4,575	9,150	16,370	22,045	27,310	32,680	37,445	42,010	47,230	51,805	56,380	61,600
		Actual	3,472	8,080	14,431	20,556	26,394	33,062	40,614	51,892	56,846	61,267	67,162	
5 Public Health and Welfare		Expected	1,207	2,413	3,620	4,827	6,033	7,140	8,347	9,553	10,760	11,967	13,173	14,380
		Actual	1,304	2,410	3,626	5,256	6,206	7,140	8,321	10,331	11,565	12,573	13,754	
6 Public Buildings and Grounds		Expected	745	1,890	2,750	3,595	4,415	5,250	5,970	6,800	7,825	8,845	9,565	10,300
		Actual	940	1,743	2,583	3,879	5,227	6,109	7,135	8,568	9,594	10,585	11,329	
7 Public Debt		Expected	16,750	17,525	18,175	25,410	26,185	38,390	45,600	46,150	46,700	53,610	54,560	66,107
		Actual	16,213	20,005	20,388	27,067	27,795	35,557	42,068	42,131	42,333	47,596	47,946	
8 Light and Water		Expected	1,430	3,065	5,300	6,935	8,570	10,205	11,880	13,600	15,300	17,000	18,770	20,285
		Actual	1,768	3,049	4,947	6,273	7,600	8,940	10,287	11,627	12,984	14,451	14,936	
9 Special Appropriations		Expected	560	1,120	1,680	2,240	2,800	3,360	3,920	4,480	5,040	5,600	6,160	6,720
		Actual	477	854	2,131	3,408	3,660	4,162	4,539	4,463	4,840	5,216	5,542	
10 Insurance and Contingent		Expected	980	1,960	2,940	3,920	4,900	5,880	6,860	7,840	8,820	9,800	10,780	11,768
		Actual	1,423	1,636	2,300	2,606	3,265	4,954	5,611	3,248	5,336	8,295	10,285	
11 Board of Education		Expected	3,460	9,430	12,890	20,280	26,450	33,440	46,670	47,620	48,630	50,060	60,100	67,830
		Actual	64	3,223	9,235	11,581	13,405	36,493	39,163	40,227	41,576	55,354		
Grand Total Expenditures		Expected	\$35,046	\$61,418	\$85,216	\$120,560	\$143,494	\$178,672	\$215,669	\$232,673	\$250,410	\$274,189	\$300,590	\$336,705
		Actual	34,116	55,539	81,229	108,161	127,932	180,336	208,234	226,250	243,537	267,140	298,527	
Cash on Hand		Expected	24,212	31,250	29,234	26,718	33,092	31,614	59,436	45,348	37,617	23,704	36,032	30,825
		Actual	26,890	23,506	19,976	5,331	7,701	39,627	20,028	7,499	11,345	1,537	9,812	

FIGURE 46. Budget Control Sheet of the City of Brunswick, Georgia, for 1928.

equivalent of the schedule of revenues and receipts explained in the preceding chapter, is entered on the horizontal line opposite each source marked "expected." The figures are shown cumulatively by months. By adding another column under each month, these figures might be shown separately as well as cumulatively. In this way, the amount for each month would be exhibited without the necessity of subtracting from the preceding month's total. This is desirable as a means of facilitating comparison. At the end of each month, the receipts collected for that month are entered on the horizontal line, marked "actual," opposite each source. The resulting totals under the "grand total income" show the relation between the "expected" and the "actual" receipts for each month.

The expenditures of the city of Brunswick have been grouped under eleven heads, representing mainly organizational or functional groups. The estimated expenditures, or allotments, for each month are shown cumulatively opposite each group, prefaced by the word "expected." On the horizontal line underneath these figures are shown the "actual" expenditures for each month. As in the case of the receipts, the expenditures are shown cumulatively. Here again, it is desirable to show the expenditures separately by months for the reasons stated above. The total of actual expenditures is exhibited at the bottom of the sheet in connection with the estimated expenditures for each month. The relation of these figures to the actual income is shown by a calculation on the last line of the "cash on hand" at the end of each month. In this case the fiscal year started with a cash surplus of \$30,825, which is treated throughout the year as a kind of revolving fund to take care of the monthly discrepancies between expenditures and receipts and thus avoid short-time borrowing to meet current bills.

On the expenditure side of this sheet, Mr. Garvin has made use of actual figures which represent cash rather than accrued transactions. The city's accounting system does not furnish the information on the accrual basis. The cash basis, however, seems to have served his purpose since throughout the fiscal year his attention was directed to the balancing of receipts and disbursements with the aid of the small cash surplus at his command. But this is not the main purpose of the figures which appear on the budgetary control sheet. They should indicate (1) the relation of the obligations incurred to the amounts allotted for each month or quarter, and (2) the relation of the accrued expenditures to the income on hand to finance them. This is the important information from the stand-

point of budgetary control. It requires the accounts to be kept on the accrual basis, as we shall explain later.<sup>1</sup>

In building up his estimates of "expected" expenditures for the different months of the fiscal year, Mr. Garvin took the various departments, agencies, and activities making up each of the eleven major groups and allocated to them the authorized expenditures according to their prospective requirements, distributing these expenditures to the different months. This produced, in effect, a schedule of proposed expenditures which is quite similar to one prepared through the use of a work program and allotments. The use of the latter devices, however, is to be preferred, since it places some responsibility on the spending agencies for current planning; furthermore, it is less onerous on the executive or his budget office and is undoubtedly more scientific as an approach to the problem of expenditure control.

Besides Brunswick, Georgia, there are other cities, principally those with the manager form of government, which are using summary statements for purposes of budgetary control. One of the most notable of these cities is Berkeley, California. About five years ago, Mr. Jamison, the city budget officer, started to work out a budgetary control system for the city government at the direction of Manager Edy.<sup>2</sup> He devised a schedule for revenues and receipts which is made up by months. In arriving at the estimated receipts from each main source of income, the city auditor's monthly financial statements for the last three years are used. The estimate is not entirely based upon past experience; such other facts as may be available regarding the inflow of revenues are taken into consideration. When the schedule is completed, the estimated figures are set up on a large sheet which provides space for the insertion of the actual figures as the revenues and receipts materialize from month to month. At the end of each month the manager and the budget officer study the actual figures in relation to the estimated figures. If the receipts from any source do not come up to expectations, they try to discover the reason. This may lead them to revise their estimate or it may aid them, as Mr. Jamison says, "to ferret out any revenue that may be due the city but has not been collected either through the fault of the city or through the negligence of the debtor." Speaking of the method as a whole, Mr. Jamison declares that "we are able to determine with a great degree of accuracy just what our income will be for the year and in what amounts it will accrue during the several months. . . . Then, too, by being able to

<sup>1</sup> See below, pp. 522-527.

<sup>2</sup> See above, p. 477.

forecast with a certain accuracy our income, we can always be certain whether or not our income will measure up to our estimate of expenditures. If we see that it will not, our warning is timely enough to permit the curtailing of our expenditures, thereby avoiding a deficit that might entail if we did not have an exact knowledge of our revenue."<sup>1</sup>

Mr. Jamison has also worked out an expenditure control sheet for the city, which completes the financial picture when presented in connection with the income control sheet described above. The expenditure sheet sets forth in summary form the accrued expenditures in relation to the estimated or allotted expenditures for each month. It is prepared from the reports made by the central accounting office to the individual departments and other spending agencies at the close of each month. It is, of course, related to and compared with the income sheet in determining the financial status of the city government. In this way, a complete picture of the financial transactions for each month is presented to the manager. Furthermore, this summary information is made available to the city council and the taxpayers.

The summary statement for purposes of budgetary control does not necessarily have to be contained on a single sheet, as in the case of the Brunswick, Georgia, statement. It may consist of several sheets, so long as it is concisely presented and so arranged that the expenditures and income may be definitely related for the different periods. For large city and state governments, it should be broken up, preferably by quarters, so that it may be more easily handled. All expenditures and all income of the government, however, should be comprehended by the statement, whatever its physical form. The expenditures, also the means of financing them, may be divided between those for current operations and those for major improvements. Likewise, the expenditures and income of public enterprises may be shown separately from those for general purposes. This is in keeping with the arrangement of the general budget summary which we have suggested in Chapter IV.<sup>2</sup> The transactions within each fund may be shown either on the summary statement or on supporting schedules. If the government has several funds, they should be combined on the summary statement and shown in detail on supporting schedules. The same method should be followed in this respect as in summarizing the budget document.

<sup>1</sup> J. H. Jamison, "How Berkeley Controls Its Municipal Expenditures," *The Tax Digest*, October, 1928, pp. 331 ff.

<sup>2</sup> See above, Figures 5, 6 and 7, pp. 69, 73 and 75.



The summary statement should show the outgo for operating purposes by organization units rather than character of expenditure. This is necessary in order to follow the lump sum appropriations; furthermore, it indicates responsibility for the expenditure of appropriations. Assuming that the appropriations are allotted on a quarterly basis, the columnar headings of the summary statement should read from left to right as follows: (1) organization units, (2) total appropriation for fiscal year, (3) estimated for first months by adding extra columns for this purpose to the second month, (6) expended for second month, (7) estimated for third month, (8) expended for third month, (9) allotted for first quarter, (10) expended for first quarter, and (11) reserve held against contingencies. Columns 3 to 11 inclusive are repeated for each quarter. The figures may be shown cumulatively by quarters or by months by adding extra columns for this purpose to the second and subsequent quarters or to the second and subsequent months. As we have already pointed out, in connection with the Brunswick, Georgia, statement, it is desirable to have the figures presented separately and cumulatively. The allotted appropriations should be inserted on the statement for all quarters and the reserve set up at the beginning of the fiscal year. The estimated distribution of the allotment to the months composing the quarter can be made at the beginning of each quarter. If the allotment is revised or a transfer made to it from the reserve, this can then be taken into account.

Accounting control is established on the basis of the quarterly allotment; the monthly estimates into which the allotment is divided are merely for informational purposes. The latter serve to indicate to the executive the rate at which the expenditures are being made during the quarter. The amount reported each month as expended represents the expenditures which have accrued during that month rather than the actual disbursements. This amount is arrived at by encumbering the quarterly allotment with all the obligations for the month as they are approved. At the end of a quarter, the unencumbered balance of any allotment should be carried to the reserve rather than added to the subsequent quarter's allotment. When it becomes necessary to supplement an allotment, the reserve should be used for this purpose. If a change is made in a quarterly allotment which affects the allotments of subsequent quarters, the latter should be adjusted at the same time.

Turning to the income side of the summary statement, the revenues and receipts for operating purposes should be shown by major sources. Opposite each of these sources should be inserted the

amount which is accrued or anticipated for the entire fiscal year. This amount is usually equivalent to that estimated or fixed in the budget. The columnar arrangement of the income side of the statement is the same as that of the outgo side, which we have explained above. Of course, the income is not allotted to the quarters; only an estimate of the amount to be collected during each quarter is shown. The estimates for the four quarters should equal the total accrued or anticipated for the fiscal year. At the beginning of each quarter, the estimate for that quarter is distributed to the three months according to the anticipated returns. The actual collections are entered at the end of each month. Delay in collecting some of the sources of income may make it necessary to revise the estimates of subsequent quarters. This can be done, so long as proper adjustments are made in the totals. It is important that the collections of each month should be compared with the accrued expenditures, thus indicating with respect to each fund whether or not the latter is running ahead of the former. If the accrued expenditures are in excess of the receipts and the fund has no surplus, the executive is immediately apprised of the fact that he must transfer between fund balances or resort to anticipatory borrowing in order to meet the obligations as they come due. It is possible to avoid anticipatory borrowing by carrying over a sufficient surplus from one year to another to meet the fluctuating demands on the treasury. For example, the city of Trenton, New Jersey, has a surplus which is maintained year after year as a kind of revolving fund, being used to pay bills when the immediate demands exceed cash receipts in any fund. As soon as the reverse condition is established, the revolving fund is replenished.

The summary statement should show the expenditures for major improvements by organization units subclassified by projects. The same arrangement may be used in presenting the information on expenditures and the means of financing them as in the case of the operating budget which we have explained above. Each public enterprise which is on a self-supporting basis should be set up separately, on the summary statement, its total outgo and income being exhibited in a comparative manner.

*Methods of Charting the Summary Information.*—The information on the summary control statement may be easily visualized by the use of graphs. An idea of how the receipts and the expenditures are running from month to month may be got at a glance by setting up the data on curve charts. We take as an example the information set forth on the budgetary control sheet of Brunswick, Georgia, as

# Estimated and Actual Receipts of Brunswick, Georgia, for 1928

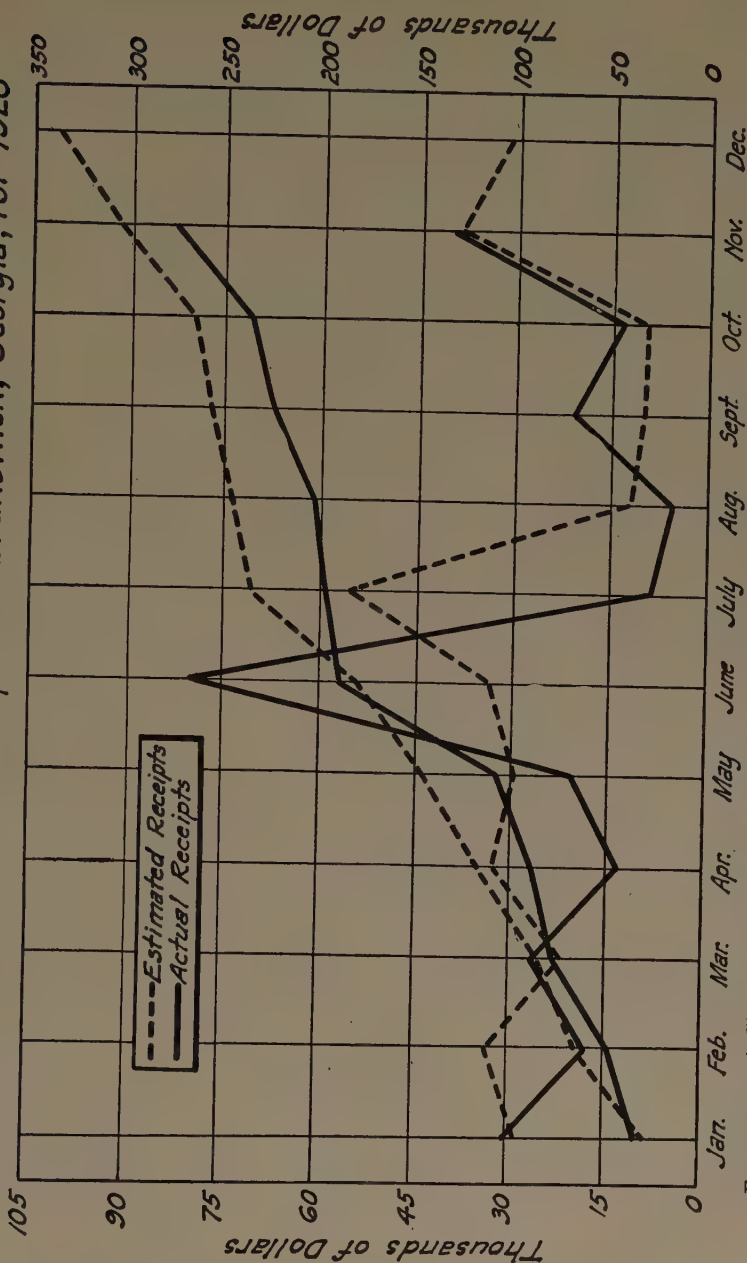


FIGURE 47. A Chart of the Receipts Exhibited on the Budgetary Control Sheet of Brunswick, Georgia, for 1928.

reproduced above in Figure 46, and present it in graphic form. The data on receipts from this sheet are shown in Figure 47, the data on expenditures in Figure 48. Separate data for each month are calculated from the cumulative data shown on the sheet.<sup>1</sup> Both types of data are used in the preparation of these charts. By arranging the charts so that two scales may be read into them for either side, these data are shown by months separately and cumulatively on the same field. The broken lines indicate the estimated figures in either case, while the solid lines indicate the actual figures. The relative position of the two types of lines shows what has happened each month in the realization of the estimates.

The curves representing actual expenditures may be put on the same chart with the curves representing actual receipts, provided a different type of line is used so the two sets of curves can be easily distinguished. The transactions of each fund may be presented on a chart of this kind. In this case, the space between the two curves which represent the receipts and expenditures cumulatively indicates the extent of surplus or deficit in the fund, a deficit being indicated when the receipts curve falls below the other.

A rather ingenious chart showing expenditures by months was devised and used by L. D. McArdle, while he was director of the Washington state department of efficiency under Governor Hart's administration. This chart is reproduced herewith in Figure 49. It shows the expenditure operations in all funds of the state government for the biennium beginning April 1, 1921, and ending on March 31, 1923. Although presented in circular form, it is in reality a bar chart. The monthly segments of each bar are determined on the basis of the total authorization for the biennium, which is assumed to represent 100 per cent. The relative proportion of the authorization actually expended during each month of the biennium is therefore shown on each bar. The percentage remaining unexpended (marked "saving" on the chart) at the end of the biennium is represented by the space between the end of each bar and the 100 per cent mark.

*Supporting Schedules and Detailed Reports.*—It should be noted that we are proceeding in our discussion from the general to the particular, that is, in reverse order to the way the data are actually built up from the accounts. This is the method we followed in discussing the form of the budget document in Chapter IV. The

<sup>1</sup> The data are used as they appear on the original sheet, although some discrepancies are apparent, notably in the actual grand total expenditures for April and in the actual cash on hand for March, April, and May.



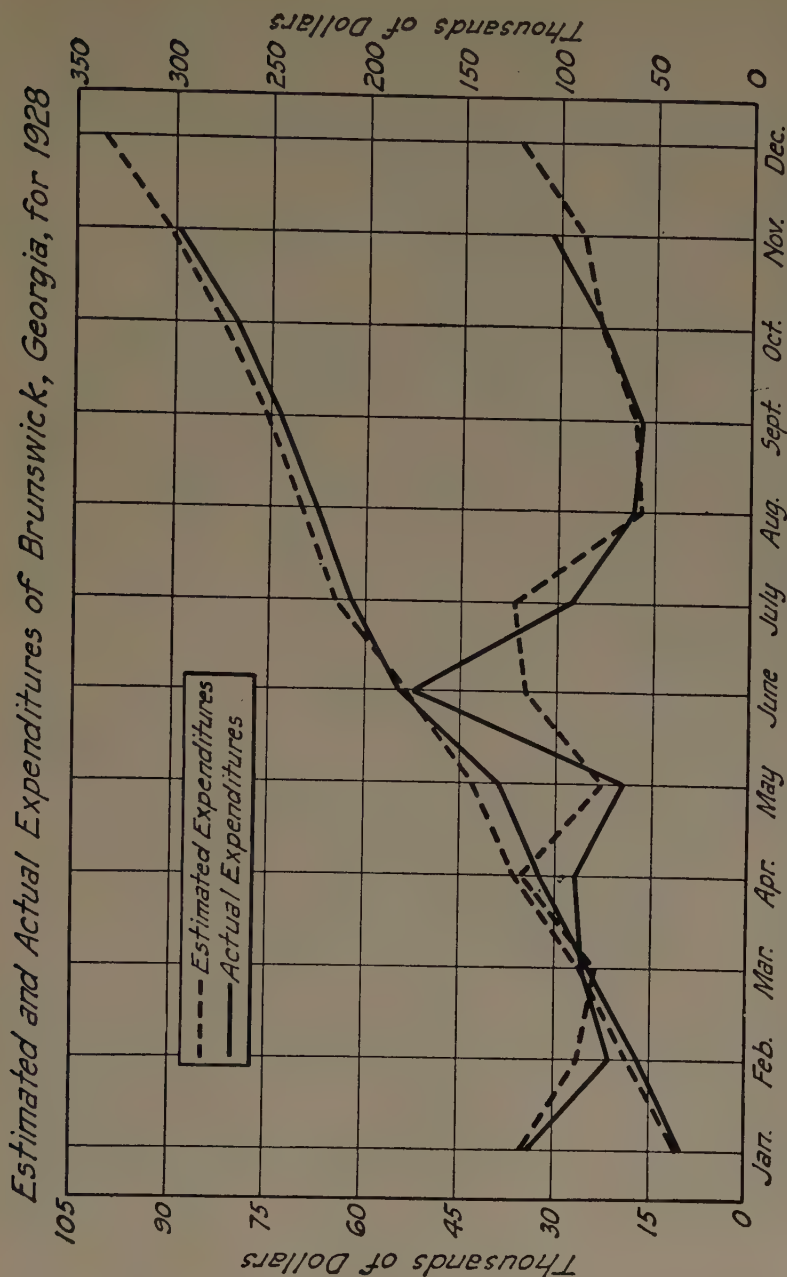


FIGURE 48. A Chart of the Expenditures Exhibited on the Budgetary Control Sheet of Brunswick, Georgia, for 1928.

items of the summary statement for budgetary control purposes should be supported by schedules which are in turn based upon detailed reports. In this way, the executive is enabled to trace back to the detailed data the deviations between actual collections and estimated receipts or between accrued expenditures and allotted appropriations which appear on the summary statement. The detailed data should explain the causes of these deviations.

In reporting the revenues and receipts flowing into the treasury, the information should be shown by funds and the sources of revenue and receipts belonging to each fund should be enumerated. Certain comparative data as between estimates and collections for the period under consideration and previous periods should be exhibited for each source under each fund. More specifically, these data should show the amount estimated and the amount collected (1) for the month or other period reported, (2) for the previous month or other period, (3) for the month or other period of the preceding year corresponding to the one reported, and (4) for the current fiscal year cumulatively to date. Such comparisons will help the executive to understand why the schedule of estimated revenues and receipts is not being realized (if such is the case) as it was planned at the beginning of the fiscal year. On the other hand, they will serve to explain why the collections are running ahead of the estimate, should this happen.

The central accounting office of the government should prepare the reports setting forth the revenues and receipts covered into the treasury during the month or other period, together with the comparative information indicated above. If the accounting system is not properly organized, the preparation of these reports may fall on the treasury official. When certain revenues or receipts are withheld from the treasury by departments or institutions, these should be reported by the withholding agencies in the form suggested above at the same time the other reports are made. The executive, or his budget officer, will then have a complete picture of the government's resources which are available as the means of financing the expenditure side of the budget.

In reporting outgo, it is possible, as we have explained, to show expenditures either as accruals or as disbursements. Complete budgetary control, however, requires that expenditures should be reported on the basis of accruals or obligations incurred. This is the type of information which the executive, or his budget officer, needs in supervising the expenditures according to the allotments and in comparing outgo with income. Expenditure data on the basis of

actual payments are of interest to the executive merely in determining the condition of the treasury with reference to the actual cash in hand.

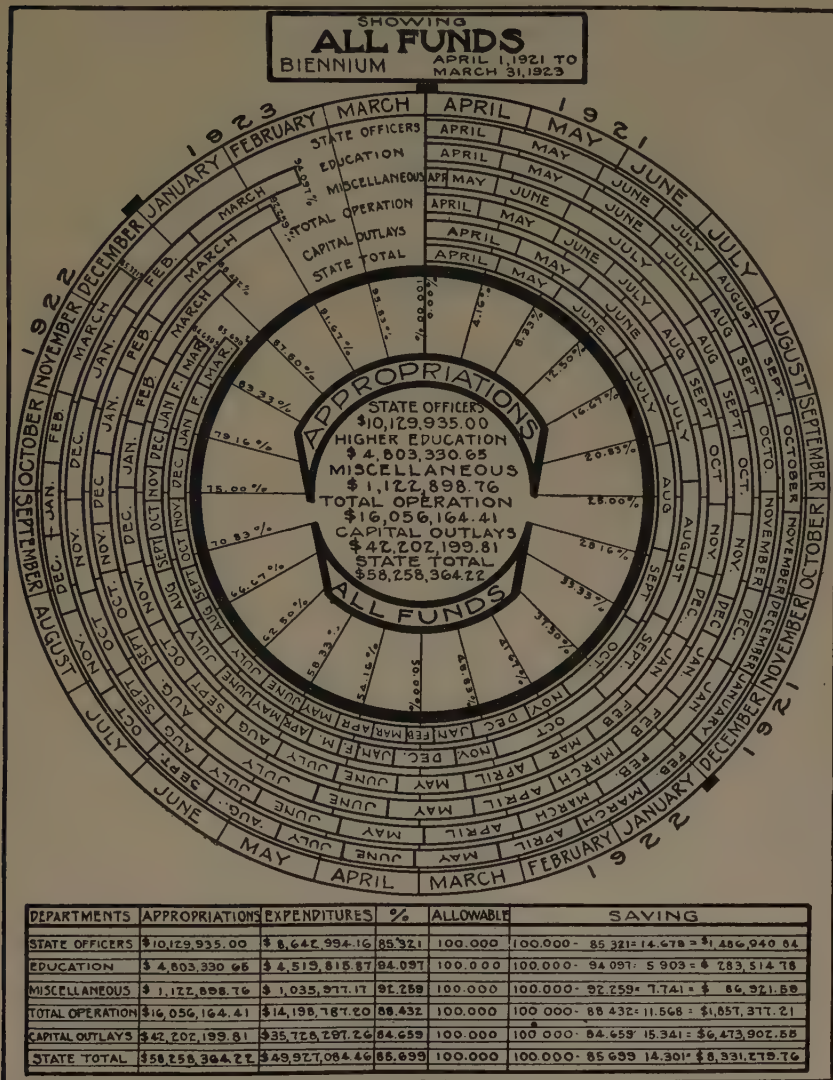


FIGURE 49. A Chart of Expenditures From All Funds of the State of Washington.

For budgetary control purposes, an expenditure report should be made for each organization unit of the government. It should show in detail the items pertaining to suborganization units, functions,

activities, and objects, as set forth in the work program and outlined on the allotment form. A number of city governments now provide for periodic reports of this kind. In Berkeley, California, for example, such a report is produced within five or six days after the close of each month, which shows in columnar arrangement the following: (1) classification of expenditures, (2) total appropriation for the fiscal year, (3) total of the accumulated monthly estimates or allotments, (4) accrued expenditures for the period, (5) underrun, that is, the amount of reduction under the estimate or allotment from the opening of the fiscal year to end of month reported, (6) overrun, or the amount by which the estimate or allotment has been exceeded for the same period, (7) estimated or allotted expenditure for the current month, (8) amount available for the current month (after taking into consideration the under-run or overrun of the preceding month), and (9) balance available from beginning of current month to end of fiscal year.

A report of a type somewhat different from that produced in Berkeley is necessary where 5 or 10 per cent of the appropriation is reserved against contingencies and the remainder allotted. We suggest a report which will show in columnar arrangement for each organization unit the following: (1) classification in detail (based on work program and allotments), (2) total net appropriation for fiscal year, (3) accumulated allotments or estimates to date, (4) accumulated expenditures (accrued) to date, (5) allotments or estimates for month or other period just ended, (6) expenditures (accrued) for month or other period just ended, (7) expenditures (accrued) for preceding month or other period, (8) expenditures of month or other period of the preceding year corresponding to one just ended, (9) amount of reserve against contingencies used during month or other period just ended, (10) amount of unencumbered allotments reverting to reserve, and (11) total amount of reserve to date. This form of report is applicable to state governments as well as city governments. Even the national government might provide more complete information by the use of such a form.<sup>1</sup>

The expenditure reports should be prepared by the central accounting office of the government and copies of each should be filed with the executive, the budget officer, and the organization unit concerned. Through a compilation of these reports the summary control statement, as it relates to expenditures, is prepared, together with such supporting schedules as may be necessary. If the general accounting system is decentralized, it may be advisable to have the

<sup>1</sup> See above, pp. 468-469.



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF HEALTH—MONTHLY EXPENDITURES 1921—1925  
BY MONTHS  
IN DOLLARS

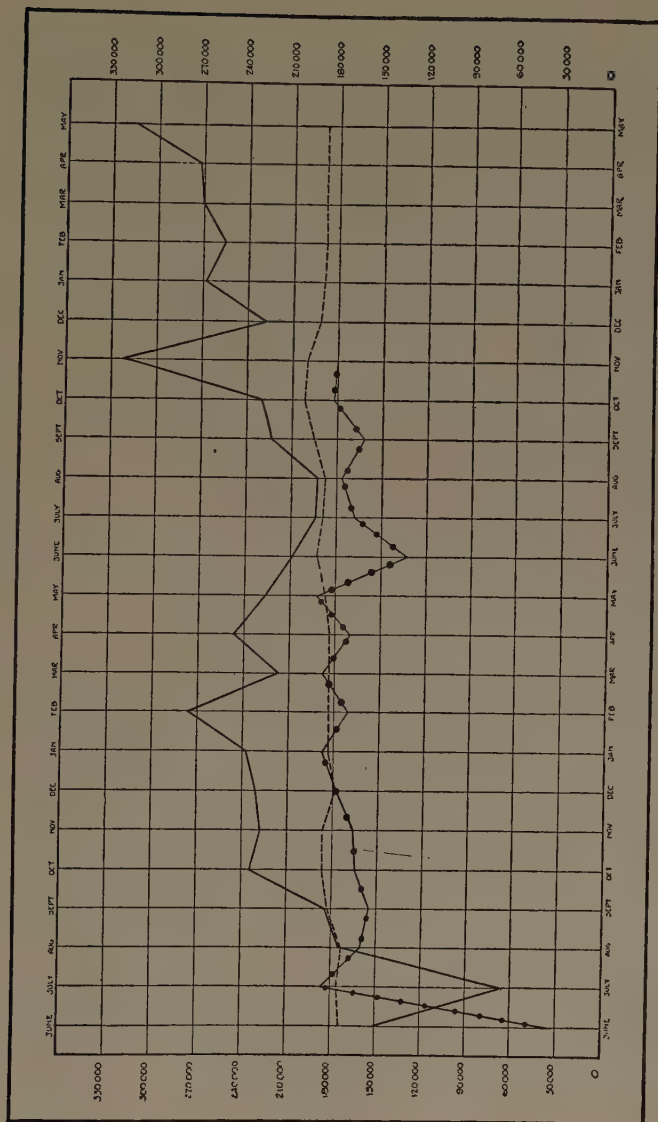


FIGURE 50. A Chart of the Expenditures by the Pennsylvania State Department of Health.

organization units prepare the reports on expenditures and submit them to the executive and the budget officer. This is the practice, for example, in the state governments of North Carolina and Pennsylvania. The reports, when prepared by the spending agencies, should contain the same character of information as outlined above.

The information with reference to expenditures which we have just discussed is presented from the standpoint of the things bought for the purpose of carrying on the work of the government. This information is commonly supplied by the general accounts.<sup>1</sup> Data may also be presented from the standpoint of how the things bought are used in the actual performance of the government's work. These data are provided largely by the cost accounts. They should be reported wherever available, care being taken to arrange them in such manner as to convey their full significance to the executive and his administrative officers.

*Methods of Charting Departmental Allotments and Expenditures.*—The monthly or quarterly relation of departmental allotments and expenditures may be shown to advantage on a chart. The curve chart is perhaps best suited to this purpose. In Figure 50 we reproduce a chart of this character from the Pennsylvania state budget for the biennium, 1925-1927. This chart was prepared during the previous biennium in connection with the budgetary control exercised by the department of state and finance over the expenditures of the department of health. It shows the actual expenditures of the department of health for the biennium 1921-1923, which was the biennium preceding the one in which control was being exercised. It also shows the estimated or allotted expenditures for the biennium under control, namely, 1923-1925, and the actual expenditures for the same period up to the time the chart was reproduced in the budget for the subsequent biennium. This chart presents a clear picture of the trend of expenditures of the department of health for the previous biennium and for the current biennium in relation to each other and to the estimates for the current biennium. Such charts were prepared for the other major departments of the state government. A glance at these charts showed the governor, or the budget officer, just how each department was running with respect to its biennial expenditures.

As we have already explained, it is desirable to show the accrued rather than the actual expenditures for the current year. The accrued figures are the ones which the executive, or the budget officer, should compare with the estimated or allotted figures. It may be

<sup>1</sup> See below, pp. 522-532.

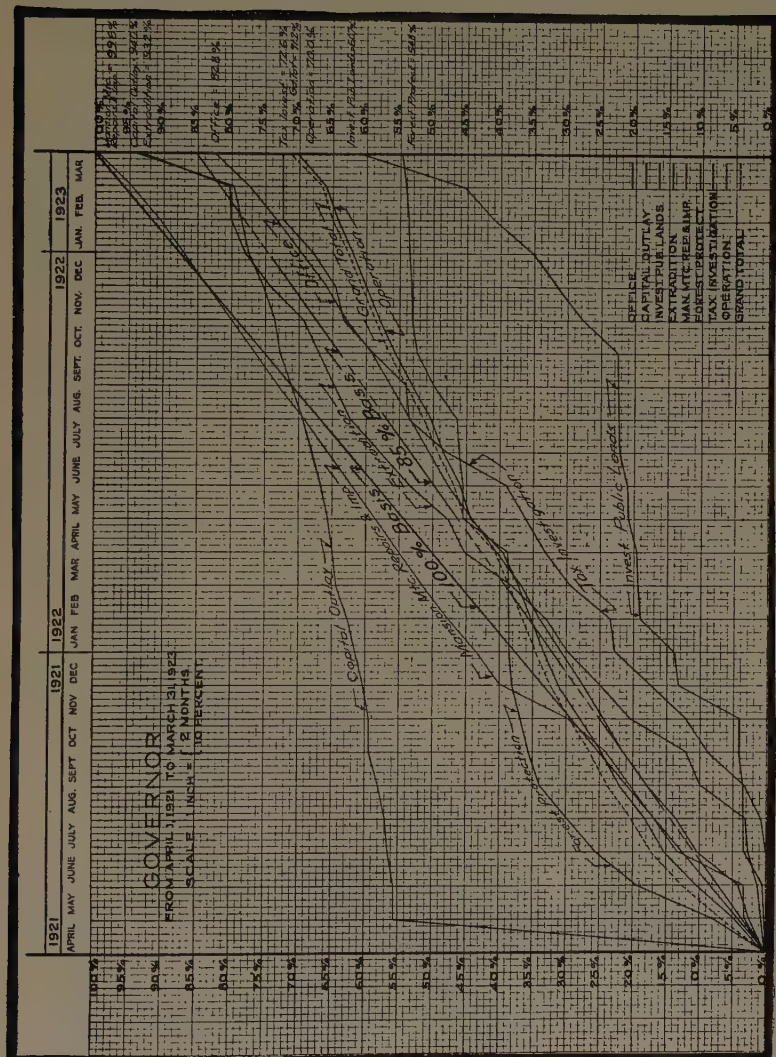


FIGURE 51. A Chart of the Expenditures by the Governor's Office of the State of Washington.

necessary during the year or biennium, in case the allotments are revised at any time, to replot the curve representing the estimated or allotted expenditures. In replotting this curve the old line should be left on the chart and the new one inserted by using colored ink or a different type of line so the old and new curves may be easily distinguished. The old curve is sometimes helpful in studying the allotments in connection with the subsequent budget.

Other types of charts have been used in showing departmental expenditures in connection with budgetary control. Two of these are worth noting. They were devised and used by Mr. McArdle of the Washington state department of efficiency, to whom we have referred above. One chart, showing the expenditures of the governor's office for a biennium, is herewith shown in Figure 51. This chart presents the rate of expenditure for each of the major operations in the governor's office. When any curve rises above the "100 per cent basis" line running between the opposite corners of the field, the indication is that the authorization which it represents is being overexpended. The "85 per cent basis" line represents a reduction of 15 per cent in the maximum that may be expended under any authorization. Since this chart shows merely rates of expenditure rather than amounts, a table is necessary to a full explanation. The chart, in this instance, is explained by the accompanying table.

#### GOVERNOR'S APPROPRIATIONS AND EXPENDITURES

Allowable percentage to date 100 per cent.

April 1, 1921, to March 31, 1923.

Department	Appropriation	Per Cent Ex-pended	Expended to Date	Unexpended Balance
Governor				
Office	\$ 48,000.00	82.8	\$ 39,778.66	\$ 8,221.34
Investigation public lands	15,000.00	60.7	9,118.51	5,881.49
Extradition	20,000.00	93.2	18,656.38	1,343.62
Mansion maintenance, repairs and improvements	18,000.00	99.6	17,919.37	80.63
Forest protection	100,000.00	54.8	54,871.15	45,128.85
Tax investigation	20,000.00	72.6	14,520.44	5,479.56
Total operations	\$221,000.00	70.0	\$154,864.51	\$66,135.49
Capital outlay	11,000.00	94.0	10,350.85	649.15
Grand Totals	\$232,000.00	71.2	\$165,215.36	\$66,784.64

The other chart, showing the expenditures of the department of efficiency for the first eighteen months of the biennium, is herewith



reproduced in Figure 52. It shows both percentages and amounts for the different operations of the department. In this case, the bars which extend beyond the perpendicular line which is marked 75 per cent at the bottom of the chart indicate that the authorizations they represent were overexpended at the time of reporting. A 10 per cent leeway is shown by the perpendicular line marked 67.50 per cent.

*The Financial Reports.*—It may be well to mention in this connection the financial reports which are generally prepared by the administrative authorities of governmental units. These reports are, as a rule, gotten out annually; they usually cover the financial transactions of the fiscal year and show the financial condition of the government at the beginning and the end of that period. At the present time there seems to be no uniformity as to the information contained in these reports. Some of them show only a list of treasury transactions; others are more elaborate, presenting a balance sheet and an operating statement for each fund. In most cases, however, these reports give a very hazy picture of the actual financial operations of the government; they do not show these operations as related either to the administrative work or to the authorized budget for the fiscal year.

Undoubtedly the annual financial report may be greatly improved, perhaps vitalized, by presenting in it a large part of the information which we have discussed above as being necessary to current management and budgetary control. This information can be easily summarized and made available for the report soon after the close of the fiscal year. The graphs which have been developed during the year can be used as illustrations in the report. Of course, a large part of the financial data produced during the fiscal year—perhaps for three fourths of the period—would be shown in the budget for the forthcoming year. But just the same, it seems advisable to present a complete annual report to the legislative body and to the citizens immediately after the close of the fiscal year.<sup>1</sup> This report, issued by the executive, would not be a duplication of the report made by the independent auditor, which we shall discuss in the succeeding chapter.

Reports of another type should not be entirely overlooked; that is the reports made to superior governments. The national government requires certain reports to be made periodically on the expenditure of many of the subsidies which it grants to the state govern-

<sup>1</sup> In the case of those state governments which are on a biennial appropriation basis, this report would be prepared at the end of the biennium.

ments. Elaborate reports must be supplied with reference to the subsidies for educational purposes and for highway construction, specially prepared forms being furnished by the federal authorities for this purpose. The state governments and certain of their spending agencies are thus compelled to keep accounting records which will supply the required information for the national government. The acceptance of the federal subsidies obligates the states to follow the regulations laid down by the national government and to furnish certain specified data with respect to operation.

As we have pointed out in an earlier chapter, several state governments have enacted legislation regulating the finances of local governments within their jurisdictions.<sup>1</sup> This legislation frequently requires certain reports with regard to the execution of the budget to be prepared at regular intervals by the local authorities and filed with a designated state agency. These reports sometimes include both expenditures and income, but usually the emphasis is placed on the expenditures. Often prepared forms upon which the reports are to be made are supplied by the state agency. Not infrequently state supervision is exercised over the accounting and reporting of the local governments, the system of local accounts being largely determined by state authority.

**Machinery and Methods Necessary in Executing the Budget.**—We now come to the financial machinery and methods required to produce the information which we have discussed above and to assist the executive in executing the financial plan of the government. We have already described the financial machinery from the standpoint of structure in Chapter XIV. We there came to the conclusion that the financial functions, with the exception of the independent audit, should be properly coördinated through the establishment of a department of finance and that this department should be under the direction of the executive. Granted this, we shall now proceed to a brief discussion of the fiscal process which goes on in connection with the department of finance. In other words, we shall attempt to treat from a budgetary standpoint the combination of structure, personnel, methods, and technique necessary to financial operation and management. This involves the accounting system, administrative audit, treasury management, personnel supervision, control of contractual services, purchase of commodities and properties, supervision and investigation by the budget staff agency, and executive conferences with the administrative officers.

<sup>1</sup> See above, pp. 31-32.

**MONTHLY REPORT**  
OF  
**APPROPRIATIONS AND EXPENDITURES**

1907 Reel 118  
506 67.506

For the 10 month period, April 1st, 1922 to September 30, 1922.

EFFICIENCY, SALARIES & EXAMINATION

DEPARTMENT			APPROPRIATION	EXPENDITURE	%	Month												Year																							
						Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
EFFICIENCY	Operation	45,000.00	29,302.15	65.1	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Capital Outlay	1,000.00	470.00	47.0																																					
	Total	46,000.00	29,772.15	64.7	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Operation	145,499.46	121,712.75	83.7	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
HIGHWAY PATROL	Capital Outlay																																								
	Total	200,000.00	6,100.52	3.1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1				
	Operation	31,400.00	24,805.98	78.9	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Capital Outlay	600.00	130.65	21.8	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
INHERITANCE TAX	Total	38,000.00	25,201.74	66.3	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Operation	20,000.00	14,539.00	72.7	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Capital Outlay	18,000.00	10,662.74	59.2	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Total	38,000.00	25,201.74	66.3	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
SAVINGS & LOAN	Operation	322,400.00	233,633.36	72.4	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Capital Outlay	1,800.65	50.00	2.8	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1					
	Total	324,200.65	233,683.36	72.3	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Operation	106,300.00	65,597.80	61.7	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
MUNICIPAL	Capital Outlay	10,000.00																																							
	Total	116,300.00	65,597.80	56.4	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Operation	2,400.00	242.53	10.1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1					
	Total	118,700.00	65,840.33	55.4	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
CORPORATIONS	Operation	24,000.00	15,835.93	65.9	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Capital Outlay	1,000.00	16.50	1.6																																					
	Total	25,000.00	15,852.43	63.4	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Operation	462,700.00	335,567.09	68.0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
GRAND TOTALS	Capital Outlay	5,000.00	1,095.68	21.8																																					
	Total	467,700.00	336,662.77	72.2	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Operation	267,700.00	164,520.79	61.4	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			
	Total	200,000.00	172,141.98	86.1	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18																			

FIGURE 52. A Chart of the Expenditures by the Washington State Department of Efficiency.

**The Accounting System.**—The accounting system of any government is merely an instrument—a means to an end. The object of it is to produce the financial information which can be used as the basis of administration and control, particularly with reference to the execution of the budget. It should be fashioned with this in mind. It should be made to comprehend all the financial transactions of the government and to produce information relating thereto with promptness and accuracy.

Literally speaking, an accounting system is a series of records which are more or less related to each other. These records may be divided into general accounts and cost accounts, the latter being detailed accounts relating mainly to expenditures. Control over expenditures and receipts is commonly exercised through the general accounts. At the present time, most of the information for financial management is produced through these accounts.<sup>1</sup> Cost accounts are, as yet, largely undeveloped with reference to the requirements of government. We shall come to this later.

In discussing the general accounts, we are not here concerned with the actual forms and day-to-day procedure of keeping the books. These are matters for the accountant to determine in view of the financial requirements of the government and the information which is to be produced. We are, however, interested in two of the larger phases of general accounting. One pertains to the basis of the accounts, that is, the question of cash versus accrual accounting. The other relates to the opening and closing of the accounts with reference to the beginning and end of the fiscal year.

*The Cash Versus the Accrual Basis of Accounting.*—Accounts kept on the cash basis show merely a record of the moneys actually received and disbursed by the government. They provide data only with regard to settlement and liquidation; they furnish no information concerning revenues and receipts which are due the government or expenditure obligations which have been incurred by the government. While the first type of information is not only valuable but necessary, the second type is just as valuable and just as necessary from the standpoint of real budgetary control. Both types of information are produced by accounts kept on what is known as the accrual basis.

Under the accrual system of accounting, all taxes and other revenues which are assessed in advance of collection may be accrued in the accounts. This is particularly true of the general property tax. There are some taxes, however, which are collected simul-

<sup>1</sup> See above, pp. 169-170.



taneously with assessment; these need not be accrued, at least there is no point to accruing them. The accrual of revenues is mainly advantageous from the standpoint of enforcing control over collection. The executive may also know where the government stands at any time during the fiscal year in the realization of its income as authorized by the adopted budget. In the matter of expenditures, the accrual system requires the appropriations to be encumbered as soon as obligations are established against them, although actual payment may not be made for some time. By this method, the executive can know at once the free or unencumbered balance of any appropriation. While the cash basis of accounting will give him the unexpended balance of any appropriation, this is not all he must know for budgetary control purposes. He must know the amount of claims outstanding and unpaid and therefore the amount of the appropriation or the allotment that remains free for future spending. Accounting on the accrual basis provides him with this information.

Although the accrual system of accounting has been used for many years by business enterprises, it is the exception rather than the rule to find this system employed by governments. Our national government and the majority of our state and local governments still keep their accounts on the cash basis, despite the fact that students of public finance have for a quarter of a century recommended the adoption of the accrual basis.<sup>1</sup> A few state governments and several city governments have recently provided for accrual accounting. It is likely that the application of this system will be extended in the future owing to the effort that is now being made to further budgetary control in government.

*The Relation of the Accounts to the Fiscal Year.*—Appropriations are usually made to meet the expenditures of a given fiscal year. This is true of annual appropriations and to some extent of continuing appropriations.<sup>2</sup> Taxes are also frequently levied for a given fiscal year, the receipts from them being intended as a means of financing that year's expenditures. But in actual practice not all authorized amounts are disbursed or all taxes collected within the fiscal year to which they are supposed to apply. This means that some expenditures may be made and some revenues may be collected in one fiscal year that really belong to the preceding year or years. It is difficult to show this fact when the accounts are kept on the cash basis. If the accounts are closed promptly at the end of the

<sup>1</sup> See H. C. Adams, *The Science of Finance*, 1898, pp. 201-211.

<sup>2</sup> See above, pp. 116-121.

fiscal year, the resulting figures will not represent all the transactions of the year just completed; furthermore, they will contain some of the transactions of previous years. If the accounts are kept open until each fiscal year's transactions are completed, then separate sets of accounts must be maintained with the different fiscal years, thus resulting in additional labor and at the same time increasing the possibility of confusion.

Under the English accounting system, there are two sets of accounts which show the national expenditures for each fiscal year. These are the "exchequer account" and the "appropriation accounts." The exchequer account shows the receipts paid into the consolidated fund and the issues (expenditures) made from it. This account is operated on a cash basis. It is closed promptly at the end of the fiscal year: to be exact, at three o'clock in the afternoon of March 31. The appropriation accounts are kept by the various departments and show in detail the expenditures made under each "vote." They show the total expenditures chargeable against the authorization or grant of the fiscal year, including all payments, the orders for which have been signed before April 1. The signing of these orders automatically includes the payments in the exchequer account for the fiscal year, although the actual disbursements may not be made until a later date. That date will depend upon the presentation of the draft by the payee for settlement. If he delays doing this beyond three months after the close of the fiscal year, a new draft must be issued and the payment is charged against the appropriation of the succeeding fiscal year. Thus the appropriation accounts are closed three months after the fiscal year ends, but the total expenditures which they show may not exactly correspond with the total issues made from the consolidated fund since it is possible that some drafts dated in one fiscal year may not be paid until the following fiscal year. The total issues (authorized expenditures) are shown in the exchequer account. Concerning the prompt closing of this account at the end of the fiscal year, J. W. Hills, in his popular work on English finance, says:

The total receipts into the [Consolidated] Fund and the total issues made from it during the year can then be ascertained. If there is any surplus of revenue receipts over the expenditure on Supply and Consolidated Fund Services that surplus is allocated to an account known as the Old Sinking Fund. A surplus of capital receipts over capital expenditure is not so transferred, however, and the amount remains as an Exchequer balance which is carried forward to the next year. Thus the account of the Consolidated Fund is balanced and the position of the national finances is ascertained directly the year closes. But it must be noted that the account does not

show with absolute precision the expenditure that has been made nor the revenue which has been received during the year. Some of the revenue collected is still in the hands of the revenue departments. Some of the issues made have not actually been spent, but are still in the balances of the Paymaster-General or of the sub-accountants. These balances, however, are kept as low as possible, and at the end of the year issues from the Consolidated Fund correspond very closely with the total expenditure.<sup>1</sup>

The French accounting system provides a set of accounts for each fiscal year which is kept open until all the transactions pertaining to that year are completed. These accounts may stay open for as long as five years, at the expiration of which time all old claims are annulled.<sup>2</sup> In this way, the fiscal year is "invested with a kind of personality." Its arrears of income and outgo are placed to its accounts at a later date. This has the appearance of completeness, since it assigns to a given year all the transactions belonging to it. But in order to produce this result as many as five sets of accounts may be running at once. Hence the system is quite complicated and much of the accounting information is delayed until it is of little practical value. It does not furnish the complete information needed by the executive and the legislative body when the budget is being prepared and adopted.

If a choice is to be made between the English and the French systems of accounting, the former would seem to be preferable. The English system, even though less precise, furnishes the information quickly. This information may not be quite as exact as that produced under the French system, but at least Parliament has it promptly in taking action on the budget.

As we have already stated, the accounting system of our national government is conducted on the cash basis. While it resembles the English system, it lacks the uniformity and simplicity of that system. The outstanding balances of appropriations are not lapsed at the end of the fiscal year, as is the usual practice in England. In the case of the annual appropriations, the law provides that the unexpended balances of such appropriations must be available to meet obligations incurred during the fiscal year for a period of twenty-four months thereafter. This means that the accounts for these appropriations must be kept open for at least two years after the year to which they relate has closed, which necessitates the running of three sets of books concurrently. Such arrangement makes it difficult to ascertain the exact condition of the treasury at

<sup>1</sup> John Waller Hills, *The Finance of Government*, 1925, p. 107.

<sup>2</sup> See René Stourm, *The Budget*, (English translation of 7th edition) 1917, p. 530.

the close of any fiscal year, although this information is required under the budget and accounting act of 1921.

Among our state and local governments which operate their accounting systems on the cash basis (*i.e.* the majority of these governments), various expedients are employed to take care of obligations incurred before the end of the fiscal year but which have not been finally settled. In some cases, the accounts are closed promptly at the end of the fiscal year but the unexpended balances of appropriations are reappropriated by the legislative body to meet any obligations which might already have been incurred. The record of these balances is then carried in connection with the accounts of the succeeding year's appropriations. In other cases, an additional period of from one to three months is allowed for closing the accounts of the previous fiscal year. At the end of this period, all unexpended balances of appropriations lapse.<sup>1</sup> Some states, like North Carolina and Ohio, which are budgeted on a biennial basis, do not close their accounts until the end of the biennium. Although the appropriations are made on the annual basis, the unexpended balances of the appropriations for the first year of the biennium are carried over and augment those of the second year. Practically the same method is followed in Alabama, which is the only state where the budget covers a quadrennium. In some of the city and county governments, the accounts are closed at the end of the fiscal year but the unexpended balances of appropriations are not lapsed. These balances are carried over and expended during the succeeding fiscal year. This is, in effect, practically the same as making additional or supplementary appropriations.<sup>2</sup>

If our governmental units—national, state and local—would install accounting systems which operate on the accrual basis, most of the difficulties mentioned above would be overcome. The distinction between the fiscal year in which transactions are consummated and that to which they belong would then disappear. All obligations would be recorded in the accounts at the time they were incurred.<sup>3</sup> The accounts could then be closed promptly at the end of the fiscal year; there would be no need of holding them open for a period or of reappropriating the unexpended balances of appropriations. The amount of the outstanding obligations would be defi-

<sup>1</sup> In reality, it is the authority to continue to spend from the appropriations which lapses.

<sup>2</sup> See above, p. 486.

<sup>3</sup> Of course, there would also be an entry in the accounts at the time the obligations were paid, but this would merely show that the transactions had been completed.



nately known at the end of the fiscal year and the appropriation accounts would have been encumbered to that extent, thus withholding sufficient of the appropriations for subsequent liquidation. The unencumbered balances of appropriations, unless otherwise provided by law, would then lapse to the surplus account of the succeeding year. The application of this system would prevent spending agencies from incurring bills near the end of the fiscal year which exceeded that year's appropriations. This is a common practice in state and local governments, such bills being carried over by the spending agencies and submitted for payment out of the following year's appropriations.

Another problem arises in connection with the closing of the accounts. This is the necessity for the establishment of a uniform fiscal year for each governmental unit.<sup>1</sup> It is sheer nonsense for a governmental unit to provide a fiscal year that is different from the budget or appropriation year. Yet this is sometimes the case, as for example, in the state of Virginia. The budget year should coincide with the fiscal year. The accounts should be kept on the basis of the fiscal year, thus covering the transactions which have been authorized in the budget. Unless this is done, the executive will find great difficulty in comparing the actual transactions with the budget authorizations.

*Cost Accounts and Their Relation to the General Accounts.*—We have already pointed out the need for cost accounts in connection with the preparation of the budget.<sup>2</sup> The chief value of these accounts, however, is in relation to every-day administration. Cost accounting is essential to the management of practically every department and activity of government. It is the means of determining the unit costs of commodities produced, work performed, or services rendered. In this way, it enables the administrator to test the quantity, quality, or results of governmental performance, and to come to some conclusion as to the returns from public expenditures. Hence the information developed by cost accounting is a valuable aid to financial management.

Some persons have difficulty in bridging the gap between cost accounting and general accounting, as they conceive the two. If viewed in their proper relation, one is not foreign to the other. In reality, cost accounting is the detailed and analytical part of general accounting; it begins where general accounting leaves off, but between them there is no clear-cut line of demarcation. Often analyses are produced in conjunction with general accounts which

<sup>1</sup> See above, pp. 331-335.

<sup>2</sup> See above, pp. 170-171.

are of a cost nature. This is usually done in an effort to supply certain detailed data where cost accounts are lacking. The main purpose of the general accounts is to express the financial condition of the government and to furnish the information for control over receipts and expenditures, while that of the cost accounts is to supply the detailed data, principally in connection with operating expenditures, which are needed both for planning and direction.

Cost accounting is now widely used in industry, but it is not extensively applied in government. As yet, it is largely limited to public works, to public utilities, and to certain institutional services. The application of cost accounting to governmental operations has been recently stimulated by the concerted effort of certain groups of taxpayers to keep down public expenditures and by the desire on the part of many officials to improve the quality of public administration. To these ends it has much to contribute.

Perhaps we should say something at this point about the analytical methods and measurement units of cost accounting. The primary analysis for cost accounting purposes should be by organization and working units, since in this way administrative responsibility can be fixed. The organization unit, as we have explained in an earlier chapter, is the department, bureau, division, or agency of the government, while the working unit is a subdivision of the organization unit based upon specific operations or kinds of work. The working unit is somewhat analogous to the cost center in industrial cost accounting; it is the basic unit of operation. At least two secondary analyses should be developed; one of these should be by operative divisions and the other by purchases. The operative divisions are mainly of a functional nature; their purpose is to group certain phases of governmental work or service with the idea of making the cost data significant for administrative uses. The costs, for example, of a municipal water utility, may be divided according to three principal operative divisions, namely, production, distribution, and general administration. For other functions of government, such divisions are necessarily different, depending on the nature of each function. The analysis by purchases follows more or less familiar lines, which we have discussed in Chapter VII. It is made on the basis of the services, supplies, materials, etc., required to carry on an operation, produce a commodity, or perform a service. In other words, it includes all the things for which public moneys are expended to carry on governmental work. If we know, for example, how much is paid for the material and labor required to lay a thousand square yards of street paving, we

can very easily figure the cost per square yard. When we arrive at this cost, it is the *direct* cost since it does not include any overhead charges, such as supervision by the department of public works under which street paving might be carried on. Such charges, if included, ought to be properly apportioned and are to be regarded as *indirect* cost. So that costs are made up of both direct and indirect elements; this is true irrespective of the governmental function involved.

There is still another factor in cost keeping; that is the unit of measurement for purposes of analysis. This unit varies widely for the different governmental activities. We have noted above in the case of street paving that it is the square yard. It may be the cubic yard in concrete construction, the M gallon in water production and distribution, the cubic foot in gas supply, or the kilowatt in electric current. In any case, it is the measure of something produced. Perhaps the important thing is not what is produced but what is done—the work performed. Then the unit may, for example, be man hour, horse day, ton mile, or ton hour. If ten men work at a job for five hours, the total amount of work is equivalent to fifty man hours. When a service of some kind is rendered, the unit is chosen with the idea of indicating performance in the case of each service. For instance, in public schools, the student hour is the unit of measurement; in hospitals, the patient day. Cost measurement units are therefore of three rather distinct types: production units, work units, and service units. The selection of these units on the proper basis is highly important both in the formulation and the use of cost data. Such data may be significant or not, depending entirely upon the analytical approach. This is the reason we have digressed at this point to say something about the methods of cost accounting.<sup>1</sup>

*Centralization of the Accounts.*—There should be a central accounting office in each governmental unit. This office, as we have already pointed out, should be under the control of the executive; it should be set up preferably as a bureau or unit of the department of finance.<sup>2</sup> It should be under the direction of a chief accounting officer with the title of controller, since no moneys would be paid into or out of the treasury without his approval. He should be responsible for supervising the entire accounting system of the government, for supplying the executive and his budget officer with

<sup>1</sup> See *Municipal Finance*, by A. E. Buck and others, 1927, Chapter V, for a discussion of cost accounting and its application to municipal government.

<sup>2</sup> As related to financial organization, see above, pp. 439-451.

the information needed in financial management, and for conducting the administrative audit.

It must be admitted, however, that there are certain difficulties in the way of centralizing the accounts, particularly in the larger units of government. Local governments lend themselves readily to the centralization of accounts. Their agencies are, as a rule, not scattered over a large area, so it is comparatively easy for them to communicate with a central accounting office. Several city governments have already adopted the plan of centralizing their general accounts in one office, the spending agencies being informed periodically by this office regarding the status of their appropriation accounts. Difference of opinion, however, exists among accountants as to the feasibility of centralizing the cost accounts in one office. Some claim that the operating departments and agencies should have the cost information prepared under their direction, since they have the greatest need for it. Others assert that the executive also requires cost information in connection with the execution of the budget, that he should have it available in summary form and should review it periodically, since it presents an index to performance which he cannot otherwise have. It is physically possible in local governments to convey the various daily reports required for cost keeping to the central accounting office where the cost records may be kept and the data produced as it is needed by the executive and different administrative departments and agencies. There is little doubt that cost data can be produced with greater accuracy and rapidity by a central accounting office than by the separate operating departments, since such office may make use of mechanical devices which the government cannot afford to install in all the departments. For example, the use of the Hollerith or Powers tabulating machines is indispensable to the accurate and speedy production of cost data, and for that matter of any detailed accounting analyses, such as the distribution of expenditures by objects. A unit or "battery" of these machines, consisting of the small devices for punching the cards, the sorter, and the tabulator, can be made to produce the detailed accounting analyses, if properly operated, for a city or county government with a volume of business large enough to satisfy the requirements of a hundred thousand population. Cities, like Cincinnati, Ohio, and counties, like Hennepin County, Minnesota, are now using these machines in their central accounting offices.

The problem of centralizing the accounts of state governments is not as simple as that of the local governments. This is largely due



to the fact that in many states the governmental agencies, particularly the institutions, are widely scattered, so much so that four or five days are sometimes required in transmitting reports by mail to and from a central office at the capitol. However, this does not prevent the keeping of a system of general accounts in one office under the control of the governor. Some states, notably Massachusetts and Virginia, have already organized their accounting systems on such basis. In these cases, subsidiary accounts, principally of a cost nature, are kept by the institutions and some of the departments. Complete centralization of accounts exists from the control standpoint, but the cost data are still produced by the operating agencies. It would seem to be feasible, particularly in the smaller states, to work out a scheme whereby the cost data might be produced from the central office. The advantages of such a scheme are apparent from what we have already said with respect to local governments.

The difficulties in centralizing the accounts of the larger states are magnified many times in the case of the national government. Federal agencies are scattered all over the world. Reporting by mail takes days, weeks, or even months. Authorizations to spend must, in these cases, be granted in advance and payment must be made through disbursing officers, if payrolls and bills are to be met promptly. However, it is not impracticable to centralize the general accounts for the departments and agencies whose activities are carried on within the territorial boundaries of the country. Some steps have already been taken in this direction. It is proposed to set up a system of general and controlling accounts in the Comptroller General's office. At the present time, certain general appropriation accounts are kept in a Division of Bookkeeping and Warrants in the Treasury Department, while each operating department or establishment maintains a system of accounts covering its transactions. Except for the formal authorization to spend from the appropriations which is granted by the Treasury with the approval of the Comptroller General, the control over expenditures prior to the disbursement of moneys is now largely exercised by the departments or establishments. When the proposed accounting system has been developed in the General Accounting Office under the Comptroller General, it will be entirely outside the administration, being supervised by an officer who is in theory an agent of Congress. The President and his budget officer will be in the position of having to depend on an independent office for the information needed in executing the budget. If they do not succeed

in getting it from this office, they will have to rely, as at present, on the departmental accounting offices, which are to be continued under the proposed system. The departmental accounts are to be subsidiary to the general control accounts under the Comptroller General. Therefore, this officer will, in effect, be auditing his own accounts.<sup>1</sup>

The proposed national accounting system, if carried out, will differ widely from the English system. It will lack some of the safeguards and much of the effectiveness of the latter system. In England, the exchequer account (general account covering the issues from the consolidated fund) is under the Treasury: supporting this account are the appropriation accounts kept by the various spending departments.<sup>2</sup> The Comptroller and Auditor General, who is the direct agent of Parliament, controls the exchequer issues in conjunction with the Treasury and performs the independent audit of the general and departmental accounts. Unlike the Comptroller General of the United States, the powers of the Comptroller and Auditor General of England "are strictly limited and defined, and he possesses no initiative and can take no action, until he receives a requisition by the Treasury for a credit on the exchequer account."<sup>3</sup> His principal function is auditing, either continuously or periodically, the accounts of the government and reporting to Parliament on them. In so doing, he does not audit his own accounts, for the accounting system is under the direction of the British Treasury, which is in the nature of a gigantic department of finance.

Suppose we applied the salient features of the English accounting and fiscal system to our national government. This would require the general and controlling accounts to be kept in the Treasury Department with subsidiary accounts in the various departments operated by officers responsible to the Treasury accounting office. Control over expenditures and the collection of revenues would be exercised by the Treasury Department, thus placing the responsibility for the fiscal operations squarely upon the administration. The Comptroller General would concur with the Treasury Department in releasing the appropriations for expenditure, but his principal duty would be that of auditing the accounts of the administration and reporting thereon to Congress.

**The Administrative Audit.**—The administrative audit, as the term is here used, refers to the checking of revenues and receipts at the time of collection and the examination and approval of claims

<sup>1</sup> See below, pp. 560-564.

<sup>2</sup> See above, pp. 524-525.

<sup>3</sup> A. J. V. Durell, *Parliamentary Grants*, 1917, p. 165.

before payment. It is the means of establishing current budgetary control, of preventing loss of revenues, and of forestalling irregular expenditures. As applied to expenditures, it is sometimes called the "preaudit" in contradistinction to the "postaudit." It should be performed by an officer of the administration, such as the controller or other central accounting officer. However, this is not always the case in practice.

In the national government, the administrative audit is performed by the departmental disbursing and accounting officers. There is no central office in the administration which checks all payrolls and other claims before payment. Such checking as the Comptroller General now does is ordinarily of the postaudit type. In other words, the spending agencies through their disbursing and accounting officers generally perform the preaudit of their own claims before payment. The examination of orders or contracts before obligations are entered into is also largely a departmental matter. The setting up of obligations as encumbrances against the appropriations is likewise done by the departmental accounting officers. It cannot, therefore, be said that the national method of preaudit is completely satisfactory from the standpoint of budgetary control.

The national accounting scheme prevails in some of the states: the departments and institutions audit their own bills before payment. Many of the states, however, provide for a central audit of all claims prior to settlement, but this audit is performed by an officer independent of the administration. This officer, generally called the controller or the auditor, is usually elected directly by the people, or in a few instances, appointed by the legislature. He is usually responsible for both the administrative audit and the independent audit; furthermore, he is in the position of having to audit his own accounts. This is, indeed, a queer mixture. Some states have remedied this anomalous situation by making the independent officer a post auditor of the accounts which are kept by the administration. This is the case, notably in Massachusetts and Virginia, where an officer, called the comptroller, keeps the general books and performs the preaudit under the direction of the governor.<sup>1</sup> This arrangement, namely, a controller under the supervision of the governor and an independent auditor, preferably appointed by the legislature, is without doubt the most satisfactory from the viewpoint of establishing executive responsibility for carrying out the budget. Besides, it affords an effective method of

<sup>1</sup> See above, p. 447.

keeping the legislature informed on the financial operations of the administration.<sup>1</sup>

Several of the local governments, particularly the cities, provide for a satisfactory administrative audit. The accounts are centralized in an office under the administration and all claims are carefully audited before the treasurer is authorized to pay them. There is often a postaudit either by state officers or by public accountants employed by the local legislative body.

We may refer briefly to the means of performing the administrative audit. The checking of revenues and receipts involves the use of billing systems, financial stationery, and accounts of the amounts to be collected. In this way the accounting officer can know whether the revenues due the government are being collected promptly, whether the amounts collected are correct, and whether the full collections are being deposited in the treasury. The checking of expenditures requires the use of payrolls, employment records, contracts, purchase orders, advice of goods received, and accounts of appropriation balances and fund resources. By the use of these documents, the accounting officer can determine before a claim is paid whether the expenditure involved is covered by an appropriation, whether it is otherwise legal, and whether the government has received what it is asked to pay for. When the accounts are kept on the accrual basis, it is also possible for the accounting officer to encumber the appropriation or the allotment with the amount of the proposed expenditure when the obligation is incurred. This insures that sufficient money will be reserved to meet the expenditure and also that the appropriation or the allotment will not be overexpended.

The administrative audit, however, should involve more than merely a check on the things the government acquires and the amounts it pays for them. It should cover the use which is made of these things, if it is to be of real service to the administration. That is, it should be extended until it becomes what has been termed an "operation audit," namely, a checking of performance. Desirable as this may be, it is largely impossible at the present time owing to the inadequate development of governmental cost accounting.<sup>2</sup>

**Treasury Management.**—Treasury functions include the collection, custody and disbursement of public moneys. It is desirable to centralize these functions in a single office, preferably a bureau or division in the department of finance under the executive. The treasurer should be in direct charge of the office. This is, in effect, the arrangement in the national government, although the Treasury

<sup>1</sup> See below, pp. 551-552 and 564-568.

<sup>2</sup> See above, pp. 527-529.



Department includes other functions some of which are entirely outside its proper scope.<sup>1</sup> In the state governments, however, the treasury is generally independent of the executive, being controlled by a treasurer who is either elected by the people or appointed by the legislature. In New York and Virginia, the treasury has recently been placed under the governor by the reorganization of the state government. State treasuries do not, as a rule, perform all the treasury functions. Revenues are often collected by various agencies, which may turn the money into the treasury or withhold part or all of it. Therefore, the treasury may not have complete custody of the funds, and disbursements may be made without the authority of the treasurer. Such arrangement adds to the difficulties of financing the budget, as we shall explain below. In the local governments, especially the cities, we often find the treasury functions under the control of the chief executive or administrator. But these functions may not be under the same office; there may be a collector as well as a treasurer. Furthermore, separate offices or departments may collect revenues and retain them for indefinite periods. Current taxes may be collected by one office and delinquent taxes by another. Disbursements may be made by various spending officers. All of which adds to the inconvenience of the taxpayers, reduces the effectiveness of auditing control, and adds to the worries of the executive in meeting the expenditure requirements of the budget.

We must omit the details of treasury management, important as they are. Suffice it to say that the treasurer's accounts should not duplicate those of the controller; he should keep merely a record of cash receipts and disbursements. He should follow the most approved methods in safeguarding the government's funds through the use of depositories. There are, however, three general phases of treasury management which we should not pass over without some discussion, since these are closely connected with the execution of the budget. They relate to the prompt and full collection of revenues, the concentration of moneys in the treasury, and the elimination of special funds.

*Prompt and Full Collection of Revenues.*—In order to realize the schedule of anticipated income for the fiscal year, there should be prompt and full collection of all revenues. This is not an easy matter, even where the revenues can be accrued or definitely assessed in advance. Take, for example, the general property tax, which constitutes the main source of income of all local governments. This

<sup>1</sup> See above, pp. 448-451.

tax is usually levied on both real estate and personal property. The collection of the tax which applies to real estate can usually be enforced, since it is possible to sell the property if the tax due on it is not paid in a stated time. But the collection of the tax on personal property can be enforced only with great difficulty and never completely. This is due largely to the fact that personal property is moveable. Other kinds of taxes, such as the income tax, are generally self-assessed, the individuals or corporations paying them being permitted to determine by certain rules the amounts which must be paid. There are various methods, however, by which the government may arrive at the probable number of persons or concerns which should pay taxes, as well as the approximate amount that each should pay. These methods coupled with the auditing of the returns help to ensure the full collection of such taxes. But we cannot discuss the numerous problems of tax collection. Taxes or other revenues which remain uncollected generally add to the difficulties of financing subsequent budgets. This is particularly true where delinquent taxes are entered as an item in the income side of the next budget, as is sometimes done in certain local governments.

*Concentration of Moneys in the Treasury.*—The concentration of revenues and receipts in the general treasury is necessary to provide a surplus for financing the various operations of the government. It amounts, in other words, to pooling the cash resources of the government. When the different departments and institutions are permitted to collect and retain for their own use part of the income of the government, the chief executive or administrator is to that extent hampered in the free use of the moneys. The treasury official cannot, as a rule, draw on these moneys. Furthermore, they are scattered around in various deposit accounts, so there is not enough surplus in any one account at one time to care for a very large expenditure. The situation is, in a way, similar to having the moneys in the general treasury segregated as between a number of special funds. We shall discuss these funds later.

In the national government and in some of the state and local governments, the public moneys are to a very large extent concentrated in the general treasury. But decentralization of moneys is more the rule than the exception, particularly in the state governments. Many of the states permit departments which take in fees of one kind or another to carry them in special accounts payable to the order of departmental officials. The same thing is permitted in the case of many state institutions, perhaps to a much larger extent. State institutions often have their own bank accounts to

which they deposit the fees they collect and upon which they draw checks to pay their bills. Not infrequently these institutions draw from the general treasury, in monthly or quarterly installments, the moneys which have been appropriated to them by the state legislature to supplement the fees which they collect. Each institution, therefore, becomes practically an independent unit so far as the handling of its finances is concerned. Whatever executive supervision is exercised over it must be on the basis of reports; central financial control in this case must be mainly of the postaudit type. In North Carolina, for example, practically all the state institutions and many of the departments operate according to this scheme. While this practice of segregating state income by placing it to the deposit accounts of various departments and institutions may be regarded as advantageous to the departments or institutions concerned, such practice cannot be defended from the standpoint of financing the state government as a whole.<sup>1</sup> For this reason, several states have recently abandoned the practice and now require that all state moneys must be deposited promptly in the general treasury.

One of the most thoroughgoing arrangements of this kind for the handling of state moneys is to be found in Massachusetts. The constitutional amendment establishing a state budget system, which was adopted in 1918, provides in section I as follows: "All moneys received on account of the commonwealth from any source whatsoever shall be paid into the treasury thereof." This provision is further amplified by subsequent laws which provide that all revenues and receipts collected by the several departments, institutions, and agencies of the state must be turned into the general treasury daily, unless for good and sufficient reason the treasurer shall permit otherwise. In order to facilitate this procedure, the comptroller, a member of the commission on administration and finance, prescribes

<sup>1</sup>In England, by the so-called "appropriations in aid" certain departments are permitted to retain and expend the miscellaneous revenues or "extra receipts" which they collect without passing them through the general treasury. While these extra receipts do not appear on the exchequer account, they have to be rigidly accounted for. They are appropriated to each service and together with the appropriation from the consolidated fund (called the net appropriation) constitute the gross appropriation for that service. Any excess over the maximum appropriated from the extra receipts must be turned into the exchequer as a miscellaneous receipt of the consolidated fund. Even under this system of control, the use of "appropriations in aid" has been severely criticized as making it very difficult to prepare a complete statement of all governmental receipts and expenditures, as being "inconsistent, illogical, and misleading," and as being "a breach of the sound rule that all receipts should be paid into the consolidated fund, and that all payments should be made from it." See Willoughby, Willoughby and Lindsay, *The System of Financial Administration of Great Britain*, 1917, Chapter V, particularly pp. 108-110; also J. W. Hills, *The Finance of Government*, 1925, pp. 33-35.

all forms for the recording of receipts by the various state agencies, and keeps central accounts of the receipts in his office. This enables him to check the departmental and institutional receipts, and also to predict the revenues available on the income side of the budget.

Several other states have provisions similar to that of Massachusetts. The Illinois civil administrative code, adopted in 1917, provides as follows: "The gross amount of money received by every department from whatever source, belonging to or for the use of the state, shall be paid into the state treasury, without delay, not later in any event than ten days after receipt of the same, without any deduction on account of salaries, fees, costs, charges, expenses or claims of any description whatever." Idaho, Maryland, Nebraska, Tennessee, Vermont, and Virginia have since adopted similar provisions in connection with their administrative reorganization acts. Some of these states, however, do not, as yet, rigidly enforce the requirement.

State institutions frequently object to depositing all of their fees, such as tuition, rent, board, etc., in the general treasury on the ground that it hampers their operations. But this objection can be easily met by providing an "imprest cash," or "petty cash," fund for each institution. The institution can then meet its incidental expenses out of this fund. When the bills which have been paid out of the fund are submitted to the central accounting office, it can order the fund reimbursed out of the general treasury to the total amount of the bills turned in and approved. In this way central control can be established over the expenditure of the moneys, and, at the same time, the institution can have sufficient cash to meet all its incidentals which must be paid on the spot. Such a fund can be applied equally well to the institutions, departments and agencies not only of state governments but also of the national and local governments.

*The Elimination of Special Funds.*—As we have pointed out in an earlier chapter, most special funds are undesirable from the budgetary standpoint.<sup>1</sup> They place undue restrictions on both the appropriation and the expenditure of public moneys, particularly the latter. They seriously hamper the use of available cash in the general treasury. When this cash is segregated into a number of fund accounts, there is no mobility to the treasury balances. Claims may be held up because the balance in a certain fund is not sufficient to meet them, when other special funds have surpluses which are quite ample to pay them. It often happens that the general fund

<sup>1</sup> See above, p. 214.



may be overdrawn, while several of the special funds have large balances. In short, the proper utilization of the treasury resources is not possible under the limitations imposed by numerous special funds.

Nevertheless, such funds still exist in great numbers in several of our state and local governments. As many as fifty or sixty special expendable funds are to be found in some of the states. However, the recent tendency is to get away from the use of special funds and to concentrate all moneys, as far as possible, in one fund—the general fund.

The national government may be regarded as having only a general fund to the credit of which all treasury receipts are placed. Special accounts are set up whenever it is desired to keep a record of certain receipts coming into the treasury. But these accounts do not limit the fluidity of treasury balances. Among the states, Massachusetts has practically eliminated the special expendable funds. All revenues and receipts, with the exception of certain bond moneys, are placed in the general fund. Other states, notably New York and Virginia, are moving in this direction. Some cities have largely eliminated the special expendable funds.

**Personnel Supervision and the Budget.**—Personnel is the most important single factor in government both from the operating and the fiscal point of view. Our attention here is directed to the latter aspect. By and large, salaries and wages consume about 50 per cent of the current expenditures of government. Hence the financial requirements of personnel are enormous. The administration of the expenditures for personal services is in itself a major problem in the execution of the budget. Of special interest in this connection are the classification of employees, standardization of salaries, control over payrolls, and handling of retirement and pension funds.

The classification of employees from the standpoint of positions furnishes a practical basis for arriving at compensation requirements. It eliminates superfluous and misleading titles by defining each position and assigning to it a proper designation. Not infrequently fifteen or twenty different titles appear on governmental payrolls which, upon analysis, turn out to be merely different names for a single position, the work being practically identical in all cases. Obviously, adequate compensation cannot be determined on any such basis. Furthermore, opportunity is offered for political favoritism and even graft. If, under such conditions, the legislative body appropriates lump sums for personal services, it has no assur-

ance that the amounts will be properly used by the administration in employing personnel. The other alternative is to examine each position and to fix its compensation in a detailed appropriation schedule. This throws a large burden upon the legislative body in determining the budget—a burden which it is not usually equipped to assume. Besides, this method of fixing compensation is generally unsatisfactory in the end. It results in a more or less rigid determination of the personnel for each department; the administrator is given little or no leeway in adjusting his force to the varying needs of the work.

An adequate classification system is the solution. It removes from the legislative body the onus of considering multitudinous details in passing on the budget. It permits lump sum appropriations to be made for personal services with the assurance that proper control can be exercised over their expenditure. This is already apparent from the working of the federal classification act which Congress passed in 1923. The experience of several state and local governments shows that these results can be attained through the classification of employees.

Standardization of salaries is closely related to classification; in fact, it is an integral part of a classification system. First, the position is determined and given a specific title; second, a definite scale of pay is attached to it. In fixing this scale a number of factors are usually taken into account. The more important of these are competition on the part of private employment, cost of living, salary range from minimum to maximum, hazards of the work, and provisions for a retirement system. Even when these factors have been taken into consideration and standard salary rates have been fixed, some adjustment is necessary from time to time in order to keep the salaries and wages in line with changing economic conditions. Several methods have been employed to this end. The most common one is the salary bonus, which amounts to a flat sum, say, one, three, or five hundred dollars added to the yearly rate of each employee. This is, at best, a crude method, a kind of hit-or-miss scheme. The most scientific method thus far employed in this country to adjust standard salary rates to the fluctuating cost of living was adopted by the city government of St. Paul, Minnesota, in 1922. The basic entrance salaries, which are the compensations deemed adequate for the living conditions that prevailed in 1916, are adjusted on January 1 of each year on the basis of the latest available index on the cost of living in that city or in the vicinity as prepared by the United States Bureau of Labor Statistics.

The actual percentage of increase so determined constitutes the adjusting percentage applicable to the standard salary rates. This adjusting percentage, for example, was 53 per cent for the year ending December 31, 1927. The full percentage, increase, however, is only allowed to the lower paid employees, it being assumed that the higher paid ones are not affected so seriously by the rise in the cost of living. So far the cost of living has been steadily increasing, but should it decrease, this method would afford a definite and equitable means of reducing salaries.<sup>1</sup>

Since the central accounting office is responsible for payroll control, it should have the coöperation of the civil service or personnel agency, where such an agency exists.<sup>2</sup> This agency should check and approve all payrolls before they are submitted to the accounting office. For convenience in checking the payrolls, the agency should maintain a service record card for each employee. This card should show the title of position, the salary or wage, the date of appointment and subsequent changes in status, the service ratings (if any), the name of the organization unit in which employed, and the name of the employee's immediate superior. When a payroll reaches the central accounting office, it should be the duty of the controller to ascertain whether each name listed thereon is *bona fide*, whether each employee has actually worked during the time indicated, and whether his compensation is regular and within the amount previously authorized. In order to do this, the controller should have an advice-of-employment card with respect to each employee furnished by the employing department and approved by the personnel agency. This card should contain much the same type of information as that presented on the service record card noted above. The controller should also have a daily time report which may be presented in combination with the payroll. With the aid to these records and occasional test checks, he can usually detect payroll padding and inaccuracies. However, he cannot answer the all-important question from the standpoint of administration, namely, whether or not the employee is necessary to the work of the government. Other facts, mainly job analyses and data from cost accounts, are necessary for this purpose.

Finally, schemes for retiring and pensioning governmental em-

<sup>1</sup> See John B. Probst, "St. Paul Adopts a Stabilized Wage," *National Municipal Review*, October, 1926, pp. 574-579. Also see St. Paul City Ordinance No. 6446 (as amended to February, 1927) on salary standardization and rates of compensation.

<sup>2</sup> In many state and local governments, there is no such agency at the present time. Personnel supervision is a departmental matter.

ployees are rapidly gaining in popularity. The national government and several state and local governments have recently inaugurated pension systems. Since the funds on which these systems operate are, in nearly all cases, contributed wholly or partly by the government, they constitute a growing charge upon the public budget. Furthermore, the management of such funds, if they are to be kept in a sound financial condition, requires experience and ability on the part of the administrator. Periodic reports should be prepared setting forth the assets and liabilities of pension funds. Actuarial studies should be made as often as every five years of the mortality, service and compensation experience of the members and beneficiaries of the pension system.

**Control of Contractual Services.**—Contractual services, particularly postage, telephone, telegraph, and traveling, are difficult to control from the central accounting office. This is due to the fact that these services may be charged to the government without any evidence of the government having received or actually used them. The most common example of this is postage stamps. Thousands of dollars may be expended by a government for stamps and signed receipts may be secured from the postoffices to the effect that the stamps have been delivered, but how can the central accounting office know that they have been used on government mail? The use of postage stamps for private purposes is a source of petty graft in many governmental units. Officials use them on private mail, employees send them to mail order houses and peddle them at local stores. Several methods have been devised to check this type of graft. Some governments use perforating machines which punch a letter or monogram through the face of each stamp. This may prevent mail order houses or local concerns from accepting the stamps, but it does not preclude their use on private mail. The most effective method seems to be the central mailing room where all letters are put through a stamp meter machine. Such mailing rooms have been established in New Jersey and Virginia for all state departments and agencies located at the capitol. Cities may make use of central mailing rooms more easily than states.

Telephone service may also be used for private ends. The best check on this is through a central switchboard which keeps a record of all calls. Telegraph service may be checked through a report showing the number, length, and destination of all telegrams. In some cases, it may be feasible to require copies of the telegrams to be filed. Freight and express charges can be audited through itemized bills which can be compared with railway tariffs. When the



government buys light, heat, power, or water, it should require that these services be metered, if possible, and that bills be rendered periodically.

Several methods are used in reporting traveling expenses, some of which involve a great deal of red tape. Perhaps the most satisfactory method is to require that each trip be previously authorized by a responsible administrative officer and that the employee making the trip submit a detailed list of expenses. About the best test that can be applied to traveling expenses is the reasonableness of the items, bearing in mind that railway fares and hotel rates can be checked rather accurately. However, this does not determine the usefulness of any trip.

#### **Purchase and Handling of Commodities and Properties.—**

The centralization of buying authority is undoubtedly the first requirement in controlling governmental expenditures for commodities and properties. Each government should, as far as practicable, buy supplies, materials, and equipment through one office, preferably a bureau or division in the department of finance. This office may also arrange for the contractual services which the government uses.

Centralized purchasing, as it is commonly called, is already widely applied in the governmental units of the United States. The national government has recently taken steps in this direction. A number of state governments have purchasing systems in operation. Scores of local governments have established central agencies through which their goods are bought. Centralized purchasing has definitely passed the experimental stage.

Certain phases of purchasing are of special interest in connection with the execution of the budget. These relate to standard specifications, approval of orders and contracts by the central accounting office, inspection of goods received, stock control, and record of goods in use.

Standard specifications involve the selection of the best types, sizes and grades of goods required for the use of the government with adequate definitions to serve as a basis for bidding. As a rule, such specifications save time and money for the government. They permit the purchase of goods in quantities by consolidating departmental needs; they facilitate the maintenance of stocks and eliminate waste and surplusage due to individual preferences. Standardization tends to encourage competition, since bids are placed on a more comparable basis. Vendors are compelled to speak the same language. Favoritism in awarding contracts is

largely eliminated. Care, however, must be taken not to adopt specifications which will secure for the government inferior goods at high prices with slow deliveries.

All orders and contracts made by the purchasing office should receive the approval of the central accounting office before they become valid. Orders for goods, for example, should pass through the accounting office before they are mailed to vendors.<sup>1</sup> Simultaneously with the approval of each order the appropriation or allotment out of which it is to be paid should be encumbered with the amount of the order. Payment for the goods is thus assured as soon as the invoice is received. At the same time, any over-expenditure of the appropriation or allotment for commodities is effectively forestalled.

The government should provide for the inspection of all goods received. Such inspection should include quality as well as quantity. Standard specifications are of little value unless the government can be assured that the goods delivered are in conformity with them. Chemical tests should be made where the nature of the goods requires analysis to determine quality.

Where the government maintains storehouses, reports should be sent to the central accounting office at least once a month, showing goods on hand at the beginning of the month, goods received during the month, goods delivered during the month, and goods on hand at the end of the month. These reports should enable the controller to check the condition of the stores.

It is important to have a record of supplies or equipment in use, so as to determine their approximate life and to prevent their diversion to private ends. For example, household linens may be marked with the date they go into use, a method which is employed by the Pullman Car Company. Periodic inventories will then give some idea of wearing qualities as well as quantities. Small tools may be marked in such manner that they can be easily recognized as government property. Pieces of equipment may be marked with indelible ink or with numbered brass tags for purposes of record and identification. Several state and local governments now use such means of identifying and keeping a record of their equipment. Each government should have a complete inventory of the real estate and other property which it owns. Several state governments, for example, are without a complete record of state owned property. In

<sup>1</sup> Of course, it must be borne in mind that the size and organization of a government may place certain limitations on this procedure. See Russell Forbes, *Governmental Purchasing*, 1929, for an authoritative and comprehensive treatment of this and other phases of centralized purchasing.

1924, the department of efficiency of the state of Washington prepared a 200-page book, presenting the plats and full descriptions of the real estate owned by the state government. This was the first time that such a record had been produced in the history of that state.

**Supervision and Investigation by the Budget Staff Agency.—**

Whether the budget staff agency of the executive is a division of the department of finance or an independent bureau, it usually has certain supervisory and investigative powers in connection with the execution of the budget.<sup>1</sup> It is usually responsible for an examination of the departmental work programs and the expenditure allotments. In certain state and local governments, it acts for the executive in approving the allotments. The schedule of anticipated income is sometimes prepared by it with the aid of the central accounting office. It often receives copies of the reports on income and outgo which go to the executive during the fiscal year, such as we have described in the early part of this chapter. When the executive wants any special investigation made with respect to the finances of the government, he usually turns to the budget agency. If it is not equipped for such work, it may secure temporary investigators.

The Bureau of the Budget of the national government is required by the budget and accounting act of 1921, when directed by the President, to make a detailed study of the federal departments and establishments for the purpose of enabling the executive to determine what changes should be made in the existing organization and methods, the regrouping of services, and the appropriations for activities. In addition to these statutory powers of investigation, the Bureau has developed certain supervisory agencies which work under its direction. These are the so-called coördination agencies, which consist of a Chief Coördinator, coördination boards, and area coördinators. The office of Chief Coördinator was created by executive order in 1921. This officer was, at first, concerned solely with the utilization and disposal of surplus war stocks. Later he was given general direction over all the coördinating agencies. He was provided with three assistant coördinators, handling purchase, motor transport, and traffic. Starting in 1921, the Bureau of the Budget began to create coördination boards through executive orders or by the issuance of circulars with the force of executive orders. Ten or eleven of these boards are in existence at the present time. They consist of representatives from the departments and establish-

<sup>1</sup> See above, Chapter IX, particularly pp. 291-298.

ments and are each under the direction of a chairman appointed by the Chief Coördinator. These boards are concerned mainly with the improvement and standardization of governmental practice and procedure. The agreements which they reach are transmitted to the spending agencies through the Bureau of the Budget. Since the coördination boards are largely concerned with the services at the national capitol, nine area coördinators have been appointed to supervise governmental operations in the field. These coördinators work in areas which correspond to the nine corps areas of the army. In most cases, they are army, navy, or marine officers. The scheme of providing for area coördinators is based upon that used by the American Expeditionary Force in France. The area coördinators are assisted in the field by the federal business associations. These associations are composed entirely of federal employees, there having been some 267 of them in 1928 scattered throughout the United States.

While some doubts have been expressed in certain quarters with respect to the general effectiveness of the coördinating machinery set up in the Bureau of the Budget, there seems to be no question on this point in General Lord's mind. In his 1928 report (p. 21), he says: "As a means of promoting economy and efficiency in the public service by bringing into close contact and coöperation departments and establishments performing routine functions that are similar in nature, these coördinating activities have done much to promote and maintain the principle that the interests of the government as a whole are paramount to the interests of any one department or establishment."

General Lord hit upon the idea of organizing a number of so-called "clubs" as a means of bringing about certain economies in the operating expenditures of the various departments and establishments of the national government. At his direction, the first of these clubs—the Two Per Cent Club—was organized in January, 1925. It is reported to have saved \$60,000,000. In June, 1925, the One Per Cent Club was organized. It is said to have saved an equal amount. In January, 1926, the Two Per Cent Personnel Club was started, its purpose being to reduce by 2 per cent the cost of personnel through omitting to fill vacancies that arise during the fiscal year. It is estimated to have saved several million dollars, the amount for 1928 being reported at nearly \$20,000,000. In January, 1927, the Correspondence Club was inaugurated upon the discovery that the cost of government correspondence averaged 26



cents a letter. The purpose of this club is to spur up the output of government stenographers.

Then came the Woodpecker Club, which was instituted in June, 1927. Its name, so General Lord said, was derived from the story of the fellow who when asked if he had ever done anything to conserve the forests replied that he remembered having once shot a woodpecker. The purpose of this club is to encourage each of the half million or more employees in the federal service to save as much as a dollar during each fiscal year. No reports are required; hence this club is, in truth, the "settle-with-your-own-conscience organization." Concerning the "economies" brought about by it, General Lord, in his address at the meeting of the "Business Organization of the Government" on January 28, 1929, spoke feelingly as follows:

The Interior Department circularized its employees urging them to enlist in the Woodpecker Club and pledge themselves to make a specific saving during the year of at least \$1. I read from a letter sent to the district superintendent by a clerk at an Indian agency in Oklahoma. The letter was a response to the department circular:

"From the appropriation for lights and fuel I have saved at least \$1. . . . by sitting by the open fire in the evening with the lights turned out except when reading. . . . Through an open window my kitchen light shines into a mirror on my bathroom wall, which in turn reflects the light onto the white wall opposite and illuminates the entire bathroom."

And you smile. I did when I first read it. Then I pictured that lone federal worker, on an Indian reservation, in far distant Oklahoma, with little opportunity to save, studying to make his modest contribution to federal economy and efficiency. And I smiled no longer. Spanning the prairies, crossing the rivers, and singing its way across the great open spaces, that subdued but penetrating note of economy that pulses through every phase of federal activity, sounding clear and full in the remotest parts of the globe wherever the flag flies, found a responsive echo in the thought and consciousness of this loyal worker at one of the nation's outposts.

The latest addition to this aggregation of clubs is the Federal Casualty Club, proposed by General Lord in January, 1929. In order to qualify for membership in this club, the departments and establishments must let all vacancies remain unfilled up to June 30, 1929, "thereby contributing toward a balanced budget the far from negligible sum of \$12,500,000." This means of balancing the current budget approaches the ridiculous: no matter how important and how necessary to the operation of the government the positions may be which happen to become vacant, they are not to be filled! While these so-called "clubs" may aid in bringing about certain economies, they are in no way a substitute for real budgetary control.

**Executive Conference with Administrative Officers.**—Where the administrative functions of the government are handled through a few departments with single heads, it is possible for the executive to bring these heads together as a cabinet for the discussion of matters relating to budgeting and financial management.<sup>1</sup> This is the practice in the national government, the President having frequent conferences with his cabinet which consists of the heads of the ten great administrative departments. While these conferences deal with all the problems of government, they frequently relate to budgetary matters. In addition to the cabinet meetings, there are the semiannual meetings of the "Business Organization of the Government." These meetings have been held in January and June ever since the national budget system was established in 1921, the sixteenth being held at Memorial Continental Hall in Washington on January 28, 1929.<sup>2</sup> Both the President and the Director of the Budget address these gatherings and their speeches are generally broadcast throughout the country over one of the leading radio networks. President Coolidge has said that these semiannual meetings are "a new departure in the conduct of the business of nations," their general purposes being to "report to the people on our stewardship and plan our policies for future operations." The real reason for them, however, seems to be to enlist the support of the bureau chiefs and other subordinate officers of the administration in carrying out the expenditure plan of the budget in the absence of genuine budgetary control. That such is the case is indicated by the remarks of President Coolidge in his speech to the meeting held on June 10, 1927. He said on this occasion:

In connection with your plans for 1928, I reiterate the principle established during these budget years, that the amount made available by the Congress constitutes the maximum of expenditure and not the minimum. You must divest your minds of thought of possible accessions to the amounts given and administer your activities with the purpose of effecting every proper saving. You must consider the grant of budgetary funds by Congress as final for the year and for the purposes appropriated.

But there is another angle to the semiannual meetings of the "Business Organization of the Government." The radiocasting of these meetings appears to attract a large audience throughout the United States, thus helping to stimulate popular interest in the national budget. One of the leading newspapers of the country, in

<sup>1</sup> See above, pp. 431-439.

<sup>2</sup> President Hoover, however, did not hold one of these meetings in June, 1929, as had been the custom under the Coolidge administration. It is rumored that he may discontinue the practice.

commenting editorially on the sixteenth meeting under the title, "The Drama of the Budget," said:

In his hands [General Lord's] the presentation of the budget rises almost to the proportions of a well-rounded theatrical performance. The United States Army Band furnishes the overture and incidental music, and the President of the United States, rising amid the strains of "Hail to the Chief," the prologue.

Then comes the play in which the cast consists of that very versatile artist, General Lord, who not only instructs and educates but also amuses and entertains. Dusty statistics are made to dance about like minstrels while prosaic facts assume attractive garb and are accepted cheerfully, or at least with a wry smile, by even those department heads which find in them the instrument for cutting their appropriations. And through it all General Lord tells stories, tells them with geniality and effect, tells them well. The band plays, the curtain drops, the seen and unseen audiences applaud and The Budget, a one-act drama—tragedy or comedy, however you may look at it—comes to an end for another six months.<sup>1</sup>

In some of the states which have recently reorganized their administrative structure, it is the practice for the governor to hold regular meetings with his department heads. Governor Smith of New York, for example, frequently held such meetings after the reorganization of the state government became effective on January 1, 1927. They were termed "cabinet meetings," all the departmental heads which were responsible to the governor usually being present. In addition, the budget director was generally present. The purpose of these conferences was to aid the governor in determining the administrative policies for the state government, many of which related to fiscal matters.

Another example of state cabinet meetings is the one inaugurated by Governor Young of California under the state reorganization plan of 1927. This plan provided for a governor's council, consisting of the department heads who, with one exception, are appointed by the governor. Since the plan became effective on July 29, 1927, regular monthly meetings of the council have been held which usually lasted from nine in the morning until seven in the evening. These meetings are open to the press and the public. Each department head reviews the work of his organization during the month, so that when the council meeting has concluded "there has passed in review the entire story of the business of the state transacted within the month." In this way duplication of effort and work at cross purposes are avoided. Furthermore, Governor Young thinks that by this method "California has at last evolved a businesslike procedure in giving direction to the state's business."

<sup>1</sup> *The Christian Science Monitor*, February 6, 1929.

Municipal executives frequently take counsel with their administrative officers, particularly in the manager-governed cities. For example, Louis Brownlow, when city manager of Knoxville, Tennessee, followed the practice of having biweekly meetings with his department heads for the discussion of the city's finances and other administrative problems. Such meetings, held at least once a month, would seem to be of value in every local government where the administration is directed by a single executive.



## CHAPTER XVII

### THE INDEPENDENT AUDIT

CONTROL of the public purse, in the final analysis, rests with the legislative body. This body designates the sources from which money may be raised for the support of the government; it specifies the general purposes for which this money may be spent; it shapes the administration to perform the work which it thinks is necessary to the well-being of the citizens. In order to be assured that its wishes, as expressed in law, are being properly carried out, the legislative body must have some means of checking the income and the outgo of the government, of reviewing the methods and processes of the administration. This is attained by an independent audit of the accounts and records kept by the administration under the direction of the executive. Such audit is a necessary and final step in the completion of the system of budgetary control which we have outlined in the two preceding chapters. Only through this audit can the legislative body be assured that the executive is carrying out the budget according to the general policy defined in the law and also in keeping with the stipulations set forth in the appropriation and revenue acts.

It goes without saying that certain machinery and methods are required to perform the independent audit. First, there should be an auditor with a competent staff who is completely outside the control of the executive, preferably responsible to the legislative body. It should be the duty of this officer to make an audit of the administration's records and methods and to report on it directly to the legislative body. Secondly, there should be a special committee of the legislative body, except in the case of a small unicameral body, to receive the report of the auditor and to examine it with a view to making such recommendations for legislative action as seem warranted. Thirdly, the auditor should not maintain accounts, thus being in the position of auditing his own records, but he should verify the general and other accounts kept by the administration, either by continuous or by periodic checking, and report on these to the legislative body.

These are, in brief, the essentials of the independent audit, as the

writer sees them, both from the standpoint of organization and of procedure. While there is general agreement upon the necessity for the independent audit, there is some difference of opinion among specialists in public finance and accounting as to the machinery and methods which are required to perform such audit. All do not agree, in every particular, upon the essentials as stated above. To this we shall come later.

Various provisions for the independent audit have been made in the different governmental units—national, state and local—of this country. Generally speaking, these provisions are unsatisfactory; they accomplish only part of what is clearly desirable. They have come into existence in a more or less haphazard manner, restricted by tradition and hedged in by political forces. Only in a few instances have they been deliberately planned with the intention of providing an orderly arrangement which would meet the present-day demands of financial control. This we shall try to set forth in the subsequent discussion, dealing with the agencies for independent audit in our national, state and local governments.

**The Independent Audit of the National Government.**—Provisions for an independent audit of the financial operations of the national government were entirely lacking prior to the passage of the budget and accounting act of June 10, 1921. Up to that time, the general auditing, as well as the central accounting control, such as it was, was exercised through the Treasury Department. The Comptroller of the Treasury and the six auditors for the departments were in charge of this work. Since these officers were a part of the administration, being responsible to the President through the Secretary of the Treasury, it was argued that the audit which they performed of the accounts was subject to possible influence and pressure by the departmental officers. Some evidence seemed to point in this direction: since there was no independent check on the administrative auditors, it would be quite natural to expect that the audit system might not be rigidly adhered to under all circumstances.

To correct this situation, the budget and accounting act created a new agency known as the General Accounting Office. The functions of the Comptroller of the Treasury and the six administrative auditors were transferred to this office, their positions being abolished. The General Accounting Office, as established under this act, is, for all practical purposes, independent of the executive. It is under the direction of the Comptroller General who, although appointed by the President, serves for a term of fifteen years and is removable only by joint resolution of Congress or by impeachment.

It is, therefore, a legislative rather than an executive agency. The main purpose of it, as we shall presently see, is to strengthen congressional control over the administration in regard to the collection and disbursement of funds.

In the eight years that have elapsed since its creation, the General Accounting Office has grown into one of the great establishments of the national government. It now spends for its support approximately \$4,000,000 a year. The Comptroller General receives an annual salary of \$10,000.<sup>1</sup> There is an Assistant Comptroller General whose salary is \$9,000 a year. In addition, there are nearly 2,000 officers and employees. Early in 1927 the General Accounting Office was provided with permanent quarters in the former Pension Office Building. Its work has been organized into a number of divisions, such as, the law division, the claims division, the audit division, the bookkeeping division, the Post Office Department division, and the personnel division.

*Functions and Work of the General Accounting Office.*—The functions of the General Accounting Office may be summarized as follows: (1) control of treasury receipts and issues, (2) settlement and adjustment of claims against the government, (3) settlement and adjustment of claims due the government, (4) supervision of the accounting system and the keeping of the general accounts of the government, and (5) making investigations for and reports to Congress on financial matters.

Control over treasury receipts and issues is exercised by the General Accounting Office in this manner. A record is made through the use of what are known as "treasury warrants" of all moneys paid into or out of the treasury. The warrants ordering moneys to be paid into the treasury are called "covering warrants"; those ordering moneys to be paid out are called "settlement warrants" when payment is made directly from the treasury and "accountable warrants" when payment is made through a disbursing officer. In order to make these warrants valid, the Comptroller General must countersign them after they have been drawn and signed by the Secretary of the Treasury. It becomes the duty, therefore, of the Comptroller General to see that all moneys are properly deposited in the treasury and that none issues therefrom except in accordance with the authorizations of Congress. This, however, is a more or less routine matter; it is relatively simple as compared with some of the other duties of the Comptroller General. Furthermore, it does not include

<sup>1</sup> The national budget for 1930 recommended a salary of \$12,000 a year, but this was not approved by Congress.

the settlement of claims and the auditing of accounts, which are discussed below.

The General Accounting Office derives its authority for the settlement and adjustment of all claims against the government from a provision of the budget and accounting act, which reads as follows: "All claims and demands whatever by the Government of the United States or against it, and all accounts whatever in which the Government of the United States is concerned, either as debtor or creditor, shall be settled and adjusted in the General Accounting Office." This provision, when read in connection with another provision of the same act which confers upon the General Accounting Office the duties of the Comptroller of the Treasury and the six departmental auditors, means not only that all claims of every kind shall be settled by the General Accounting Office, but also that its settlement "shall be final and conclusive upon the executive branch of the government." In making settlement with respect to expenditures, the General Accounting Office must audit all bills and vouchers presented for payment. This audit may be either a preaudit (audit before payment) or a postaudit. In practice it is usually a postaudit, although some preaudit work has recently been instituted in a few of the governmental establishments. Under the postaudit method the payments made by departmental disbursing officers are not usually settled by the General Accounting Office until several months after the expenditure. In cases where these disbursing officers have made overpayments (and there are many such cases), it is very difficult for the government to effect recovery. Between the time of payment and the audit, the payee may have left the country, gone into bankruptcy, or died.<sup>1</sup> By the use of the preaudit method, this situation can be avoided, since the final settlement and adjustment is then made before payment. Although the disbursing officers are held responsible for the payments which they make without previous authority from the Comptroller General, this does not insure that these payments will be found satisfactory when finally audited by the General Accounting Office. The disbursing officers, of which there are about 3,000, some 2,000 being within the boundaries of the United States, try to protect themselves by making an audit of the claims before payment. These claims are later audited by the central accounting offices of the departments and again by the General Accounting Office. This amounts to a triplicate audit. The Comptroller General has proposed that the audit by the central accounting

<sup>1</sup> See the Annual Report of the Comptroller General of the United States for the Fiscal Year 1927, p. 43.



offices of the departments, known as the administrative audit, be dispensed with and that the claims be passed from the disbursing officers to the General Accounting Office. In any case, it is the audit of the General Accounting Office which finally determines the validity of all expenditure claims. As to the propriety of this, we shall say more later.<sup>1</sup>

In the settlement and adjustment of claims due the government, the General Accounting Office conducts an audit of receipts. Its authority for doing this is found in the provisions of the budget and accounting act which have been cited in the preceding paragraph. As a matter of fact, the General Accounting Office attempts to do considerably more than merely to make an audit of collections. It claims that its authority extends to a determination of the amounts that should be collected by the government and offered for deposit in the treasury. On this point, it has come into conflict with the views of the Secretary of the Treasury which are supported by the opinions of the Attorney General. The result, so far, has been this: the General Accounting Office is limited practically to an audit in the case of internal revenue receipts; no definite stand has yet been taken with respect to customs receipts, not even in the matter of an audit. The Supreme Court of the United States has indicated in the case of customs receipts that it favors the stand taken by the Secretary of the Treasury.<sup>2</sup> While the authority of the General Accounting Office seems not to have been seriously disputed in the case of miscellaneous or departmental receipts, Congress will probably have to settle the matter with respect to internal revenue and customs receipts by more clearly defining the powers of the Comptroller General in this regard. Furthermore, the General Accounting Office has claimed the right to enforce the collection of claims due the government. It has even ordered moneys which it ascertained to be due the government from officers and employees, particularly in the Navy Department, to be deducted from their salaries. This has raised a storm of protest on more than one occasion. Complainants have taken their cases to the courts. In several instances, the Court of Claims and the inferior federal courts have rendered decisions on these cases, but the Comptroller General has refused to be bound by the opinions of such courts. Here again, congressional action will probably be required to settle the matter, since the judicial con-

<sup>1</sup> See below, pp. 560-564.

<sup>2</sup> Ben F. Wright, Auditor of the Philippine Islands *vs.* Ynchansti and Company, United States Supreme Court, decided December 13, 1926.

struction of the law as it now stands is not likely to meet the requirements of effective financial management.

As its name implies, the General Accounting Office is intended to keep the central or controlling accounts of the government. It is also authorized to "prescribe the forms, systems, and procedure for administrative appropriation and fund accounting in the several departments and establishments." While accounting systems have been worked out and installed in several of the operating services, these have not yet been tied up to a set of general accounts. Very little has thus far been accomplished in the direction of installing a central accounting system. However, uniform classifications of expenditures and of income have been devised and promulgated for general use in accounting and budgeting.<sup>1</sup>

Finally, the Comptroller General is authorized to "investigate, at the seat of government or elsewhere, all matters relating to the receipt, disbursement, and application of public funds." He is required to report to Congress at each regular session on the work of the General Accounting Office, making such recommendations as he may think advisable with respect to the handling of national finances. He is also required to conduct investigations and make reports when ordered by either house of Congress or by any committee of either house having jurisdiction over revenues, appropriations, or expenditures. The Comptroller General and his staff therefore constitute an investigational agency for Congress on matters of finance. So far, Congress has made little use of the General Accounting Office for this purpose.

*The English System of Independent Audit.*—By way of contrast with the structure and functions of the General Accounting Office which we have just described, let us notice briefly the organization and methods employed in carrying out the independent audit system of the English government. This system rests mainly on two agencies which were created many years ago by Parliament: one is the Comptroller and Auditor General and the other is the Public Accounts Committee.

The office of Comptroller and Auditor General was established by the exchequer and audit act of 1866.<sup>2</sup> The Comptroller and Auditor General is appointed by the Crown and holds office during good behavior. He can only be removed from office by the sovereign on an address from both houses of Parliament. He is independent

<sup>1</sup> See above, pp. 194, 217-218.

<sup>2</sup> The complete title of this office is "Comptroller General of the receipts and issues of His Majesty's Exchequer and Auditor General of Public Accounts."

of all departments and of the executive, being solely responsible to the House of Commons. No cabinet can override or dismiss him. However, it is his duty to coöperate with the Treasury: in this respect, he is a very important agent in seeing that the treasury regulations regarding expenditures are properly carried out.

The duties of the Comptroller and Auditor General, as his title indicates, relate to two distinct tasks—one is control and the other is audit. We shall first note his duties with respect to control. The Treasury cannot obtain money from the exchequer account without his concurrence; at the same time, he cannot himself issue money. It is only by joint action between the two that money passes from the exchequer to the Paymaster General where it is under the supervision of the Treasury. The authority of the Comptroller and Auditor General, however, differs somewhat as between the consolidated fund services and the supply services. "He is in a position," says Major Hills, "to check completely issues made for the consolidated fund services, and no more can be spent on such services than is due and authorized. For supply services he is not in such a strong position. As Auditor, he can censure misapplication of money, but as Comptroller he cannot prevent it."<sup>1</sup> But on the whole, his duties as a controlling agent of Parliament, while important, are, as Colonel Durell says, "infinitesimal as compared with his duties as an auditor."<sup>2</sup>

The duties of the Comptroller and Auditor General as auditor of the accounts of the government are quite extensive. With respect to expenditures, he must ascertain, first, whether the payments shown in the accounts have actually been made, and, second, whether the money expended in each instance has been applied in accordance with the intention of the parliamentary grant. On the question of whether the money has been wisely spent, he has little to say. While he may be able to detect the more glaring extravagances, he is not expected to discover whether full value has, or has not, been received for the sums expended. In addition to the expenditure accounts, he also audits the accounts of the receipts of revenue. He is required to ascertain, in this case, that adequate regulations are enforced to insure the due assessment and collection of revenue, and he may examine, as he sees fit, the correctness of the amounts paid into the consolidated fund. But in his audit of revenue, "he has, generally speaking, no power to go behind the administration with a view

<sup>1</sup> John Waller Hills, *The Finance of Government*, 1925, p. 83.

<sup>2</sup> A. J. V. Durell, *Parliamentary Grants*, 1917, p. 167.

to seeing whether its accounts and records are complete.”<sup>1</sup> His audit, both with respect to expenditures and revenue, is continuous, being carried on throughout the entire fiscal year. It is, in all cases, a postaudit. He does not attempt to cover all the claims of the government arising during the fiscal year, since this would be a tremendous and costly undertaking. In practice, he makes what is known as a “test audit” of some of the large departments, that is, he selects some section of the departmental account and subjects it to detailed scrutiny. In this way he satisfies himself that the whole account is satisfactory. By rotating the section of the account selected each year, he is enabled to cover the entire account in the course of a few years. The effect of the audit is practically the same as if the whole account had been scrutinized each year, since each department does not know in advance which section of its account will be selected. In some of the large departments, the Comptroller and Auditor General keeps a staff which works continuously on the department’s books.<sup>2</sup>

Any irregularities which the departments are unable to justify go into the report of the Comptroller and Auditor General at the end of the fiscal year. This report goes to the Public Accounts Committee and to the House of Commons. If occasion seems to demand it, the Comptroller and Auditor General may go directly to the Speaker and get any matter laid before the House of Commons without waiting until the close of the year. In the main, the duty of the Comptroller and Auditor General is to see that no department misapplies its appropriation. His reports are usually critical of the spending departments. “More and more,” says Major Hills, “in his work as Auditor is he concerned with efficiency—with the merits as distinct from the regularity of expenditure. He cross-examines the accounting officers on all points where payments appear to him questionable, and as a result of his examination and enquiries he is often able to detect cases of waste and extravagance. But . . . it is only the more glaring misspending that can be brought to light by his audit. He cannot examine the merits of each transaction nor measure the efficiency of any department’s daily expenditure. He has neither the material nor the specialised knowledge required for such criticism. But in spite of this limitation his examination of expenditure is of great value, and is an important factor in the prevention as well as in the detection of extravagance.”<sup>3</sup>

<sup>1</sup> A. J. V. Durell, *Parliamentary Grants*, 1917, p. 177.

<sup>2</sup> See above, pp. 524-525 on English appropriation accounts.

<sup>3</sup> John Waller Hills, *The Finance of Government*, 1925, p. 122.



The Public Accounts Committee, which was instituted by Gladstone in 1861, is appointed by the House of Commons at the beginning of each session. It is composed of fifteen members. "Its chairman," says Major Hills, "is generally a distinguished representative of the opposition, often a former Financial Secretary to the Treasury, and the actual Financial Secretary to the Treasury is only a private member of it. Its service is onerous, but sought after. Many distinguished men have sat on it. Party differences affect it little. Meeting year after year, sitting in private, withdrawn from clamour and publicity, its members acquire a sense of corporate responsibility and corporate self-respect. . . . Its work is perhaps the most valuable part of parliamentary control of finance. True, it does not sit till long after the money has been spent. But it renders future misfeasance more difficult. Its business is to see that all parliamentary grants, including supplementary grants, have been applied to the objects which Parliament prescribed. But in reality it does more. It looks into causes as well as consequences. It censures improper expenditure as well as improper accounting. It exposes waste and inefficiency. It has before it the reports of the Comptroller and Auditor General, and with these in view it carefully examines the accounts, administering advice, reproof and even punishment should it be necessary. The Comptroller and Auditor General sits with it: so does a high Treasury official. Disagreements are rare, either among its members or with the Comptroller or with the Treasury. Nearly all its enquiries, indeed, are on points raised by the Comptroller, one more proof of the usefulness of this high officer of the House of Commons."<sup>1</sup> In the course of its work, the Public Accounts Committee can summon the accounting officers of the various departments and ask them to explain or justify the payments which have been made. When the Committee has concluded its examination, it reports to Parliament. Seldom are the reports of the Committee discussed in the House of Commons, due to lack of time and also to the fact that the transactions reported upon have occurred some two or two and a half years earlier. But these reports always receive the careful consideration of the Treasury. It always takes definite action on the recommendations of the Committee, often putting them into effect, in part, if not *in toto*, in the various departments.<sup>2</sup> This it has the authority to do through

<sup>1</sup> John Waller Hills, *The Finance of Government*, 1925, pp. 123-124.

<sup>2</sup> The essence of the reports of the Public Accounts Committee together with the decision of the Treasury on the recommendations of the Committee are to be found in the *Epitome of the Reports from the Committees of Public Accounts, 1857 to 1925*, published by His Majesty's Stationery Office, London, 1927.

the general supervision which it exercises over the financial affairs of the government.

The work of the Public Accounts Committee and the Comptroller and Auditor General is, says Colònel Durell, "based on the essential principle that parliamentary control depends, not on complicated checks imposed before expenditure takes place, but on early audit of the expenditure after it has been incurred, and by an examination by Parliament itself of the results of that audit."<sup>1</sup> This statement would seem to epitomize the English system of independent audit.

*Future Development of the American System of Audit.*—It seems quite clear that the American system of independent audit, as it is now developing in the national government, is departing from the general lines of the English system—a system which has stood the test of experience for two generations. The fact that the English governmental structure is of a different type from the American does not nullify comparison: basically, the object to be attained, so far as the independent audit is concerned, is the same in either case. The purpose is to establish the means for a legislative review of the execution of the budget. So far as structure is concerned, Congress failed, at least in part, to set up the necessary machinery for this purpose when it established the General Accounting Office in 1921. It should have created at the same time a single Committee on Public Accounts for the two houses, abolishing the present committees on public expenditures which are largely ineffective. The reports of the Comptroller General cannot be very useful unless carefully reviewed by Congress to the end that the executive and the administration may be required to carry out the desirable recommendations contained in these reports. A congressional Committee on Public Accounts, functioning along the general lines of the English Public Accounts Committee described above, seems indispensable to the proper handling of this work.

So much for the structural part of our national audit system. Now let us briefly review the functions of the General Accounting Office as compared with those of the British Comptroller and Auditor General. In the first place, the authority of the Comptroller General of the United States extends much further in the direction of control than that of the British officer. Not only does the Comptroller General approve all treasury receipts and issues, but he is actually authorized to control the payment of all claims against the national government. No claim is finally settled until he has passed upon it. All payments made by the departments and establishments

<sup>1</sup> A. J. V. Durell, *Parliamentary Grants*, 1917, p. 109.

through their disbursing officers are subject to his review and approval. He is, therefore, more than merely an auditor of expenditures, as in the case of the English Comptroller and Auditor General. In the second place, the Comptroller General of the United States has authority (at least, he assumes he has) with respect to receipts which extends much beyond a mere audit. He attempts to determine the amounts, so far without much success, which ought to be collected and deposited in the treasury.<sup>1</sup> Furthermore, he attempts, in some cases, to enforce the collection of moneys which he has ascertained to be due the government. Should he be able to realize his desires in this respect, his powers would greatly exceed those of the English Comptroller and Auditor General which are confined to an audit. In the third place, the Comptroller General of the United States maintains, or will maintain, the central accounting office of the national government. In connection with this work, he prescribes the subsidiary accounts for the departmental accounting offices and promulgates the classifications which these offices are to use in reporting financial information. This arrangement not only places the Comptroller General in the position of auditing his own accounts but it puts the supervision of the general accounting system outside the control of the President and his departmental heads. And yet, it is this system which produces the information that is indispensable to the execution of the budget and the general management of the government's finances. As we have pointed out in the preceding chapter, effective budgetary control depends upon a central system of accounting under executive direction which provides for a preaudit of all claims. Our national system, as it is now developing under the General Accounting Office, fails to meet this requirement. Under the English system, the accounts are supervised administratively, the fiscal and accounting regulations emanating from the Treasury which is the great financial department of the executive. Finally, the auditing work of the Comptroller General of the United States is not completed as expeditiously and reported upon as thoroughly as in the case of the British officer. The delay is due to the meticulous checking in detail of all vouchers and bills which is necessary as a part of the control system. The American officer cannot make test audits as a method of ascertaining that the accounts are accurate. His annual reports refer only in a general way to the knotty problems which he meets in the daily administration of the General Accounting Office. He does not refer questions pertaining to executive and administrative management to Congress; he decides them himself.

<sup>1</sup> See above, p. 555-556.

Of course, as we have pointed out above, Congress has no satisfactory machinery at this time through which it can consider and dispose of detailed reports from the Comptroller General. In this respect, it is very much hampered as compared with the English House of Commons.

While the work of the General Accounting Office seems to be definitely laid out with reference to the detailed control of expenditures and the supervision of the central accounting system, we believe that this development is, on the whole, moving in the wrong direction and that experience will ultimately support our conclusion. We think that the functions of the Comptroller General, aside from the approval of treasury receipts and issues, should be strictly limited to auditing the accounts by the postaudit method, that the general accounts should be kept by the Treasury Department under the direction of the President, that such subsidiary accounts as are necessary in the departments and establishments should be kept by officers directly responsible to the Secretary of the Treasury, and that such disbursing officers as are required in the departments, establishments, or field services, should also be directly responsible to the Secretary of the Treasury.<sup>1</sup>

While several arguments have been advanced in support of the existing arrangement, they are open to challenge on sound administrative and financial grounds. W. F. Willoughby is perhaps the chief supporter of the Comptroller General's present position which makes him, in effect, the chief accounting and controlling officer of the national government. In the first place, Mr. Willoughby argues that the federal administration is an agent of Congress, distinct from the executive, and therefore should be subject directly to the control of Congress rather than of the President in handling all its financial matters.<sup>2</sup> He cites several court decisions in support of his position, which, no doubt, can be justified from a historical point of view. But he seems to overlook the fact that, while the powers of the administration are determined by Congress (no one will deny this), the agencies which exercise these powers, namely, the departmental heads and their subordinate officers, are directly responsible to the President.<sup>3</sup> In other words, these agencies, at least for all practical

<sup>1</sup> At the present time the departmental accounting officers and the disbursing officers are responsible to the departments or establishments which they serve. See above, pp. 531-532.

<sup>2</sup> W. F. Willoughby, *The Legal Status and Functions of the General Accounting Office of the National Government*, 1927, Chapter III, particularly pp. 36-38.

<sup>3</sup> This is supported by a recent decision of the Supreme Court in the case of *Myers vs. United States*, 47 Sup. Ct. 21, decided October 25, 1926. According to



purposes, are under the direction and control of the executive. They are, in fact, further removed from the jurisdiction of Congress than are the British administrative agencies from the House of Commons, since the President is independent of Congress while the English executive is responsible directly to the House of Commons. Yet Parliament has not seen fit to make the Comptroller and Auditor General the chief accounting and controlling officer of the English executive and administration simply because of the dependence of these agencies upon the House of Commons. On the other hand, it has been careful to limit the major functions of the Comptroller and Auditor General strictly to auditing and reporting.

In the second place, Mr. Willoughby contends that, irrespective of the provisions made by Congress in the case of the Comptroller General, the system by which governmental claims are not only audited but also settled and adjusted by an officer who is independent of the executive is the correct one. This system, he asserts, is desirable from the standpoint of efficient administration, since there is an element of danger in permitting the departments and establishments which incur obligations to pass on their own acts in the settlement and adjustment of such obligations.<sup>1</sup> But the placing of the central accounting and controlling office outside the supervision of the executive does not seem to us to be the best arrangement from the standpoint of the effective execution of the budget. Such arrangement leaves the executive, as we have pointed out above, without the information and machinery requisite to budgetary control. If the executive is to be held responsible for directing the administration (and such appears to be the present trend of governmental development in this country), he should not be deprived of the chief means by which he can make his will effective. This demands nothing less, it seems, than that he should have the central accounting and controlling office under his immediate supervision. Under an arrangement of this kind, the departments and establishments would not pass upon the obligations which they incur, a thing which Mr. Willoughby sees danger in, but these obligations would be settled and adjusted by the central accounting office under the Treasury Department. Further, this central accounting office would be constantly checked by an independent auditing officer under Congress. The existing arrangement does not provide this added check, since there is no agency at the present time to audit the settlements and

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this decision, the constitutionality of the Comptroller General's office may even be questioned.

<sup>1</sup> W. F. Willoughby, *Principles of Public Administration*, 1927, pp. 631-632.

adjustments made by the Comptroller General. He is both controller and auditor: he makes decisions as controller and he approves these decisions as auditor. Is there not as much danger in an unchecked Comptroller General as in an uncontrolled administration? We think that this is perhaps a phase of the problem which Mr. Willoughby has overlooked in his effort to justify the work of the General Accounting Office on its present basis. The recent extension of this work indicates that the General Accounting Office is fast becoming a huge establishment which is now aiming at the complete domination of all acts of the national administration relating to the collection and disbursement of moneys. In his annual report for 1927, for example, Comptroller General McCarl recommended to Congress that he be provided with a special legal staff to assist him in prosecuting the suits brought against the government in the Court of Claims, since he did not feel that the Department of Justice was giving the proper support to his contentions. Again, in his report for 1928, he recommended that the present system of making payments through disbursing officers responsible to the various departments be reorganized and that these officers be more directly accountable to his office. This means that the General Accounting Office will eventually become the national department of finance; in fact, it may already be said to approach that status. The Treasury Department is now little more than a collecting, custodial and disbursing agency. The Bureau of the Budget prepares the budget for the President, but it is legally without the power to enforce the execution of the budget as the President may direct. Thus the President is, from a practical standpoint, largely without the machinery for executing the financial policies which have been outlined by Congress.

**The Audit Systems of State Governments.**—The audit systems of most state governments are not the result of careful design but of more or less haphazard growth. The office of auditor, frequently called controller, was one of the early state offices along with that of governor, lieutenant governor, secretary of state, treasurer, and attorney general. Two generations ago the work of these officers constituted about all there was of the state administration. It became the vogue then to elect by popular vote all, or nearly all, of these state officials, so the auditor was elected along with the rest. This method of selecting the auditor has continued to this day in the great majority of the states. In only three states—New Jersey, Tennessee, and Virginia—is he appointed by the legislature. So he may be looked upon, in most cases, as an officer who is independent both of the governor and of the legislature, except in so far as he

may be controlled by political alignment. His position, as an officer of the state government, is therefore entirely different from that of the Comptroller General of the United States.

Now let us examine briefly the functions of the state auditor. In nearly every instance (there are two exceptions which we will note later), he is the chief accounting and controlling officer of the state government. He keeps the general accounts, such as they are, and he approves the payment of moneys into and out of the state treasury. In the process of controlling receipts and expenditures, he makes, or is supposed to make, an audit of all income and outgo. His audit of expenditures is usually of the preaudit type, since it is by this method that he determines what payments are to be made. However, in making this audit, he rarely ever goes behind or questions the statements of collecting or disbursing officers. Otherwise, his functions are, in general, similar to those of the Comptroller General of the national government.

The state auditor, therefore, is usually in the position of auditing his own accounts, as well as those of the other state agencies. There is no check over him in most states, not even by the legislature. This is one of the reasons why we often find the departments and institutions under the governor keeping accounts to check against those kept by the auditor. In some states, the governor has an officer who does not keep accounts, but who makes a postaudit of those kept by the auditor and by the various departments and agencies. This is the governor's means of knowing that the state's accounts are being satisfactorily kept and of getting the financial information which he needs in directing the governmental work.

This situation with regard to the independent audit prevails in most of the states which have not recently reorganized their governments. Even in many of those states which have adopted plans of reorganization, the situation is not greatly changed. Since nearly all these plans are statutory, they do not usually affect the functions of the auditor which are frequently outlined in the state constitution. In several instances, a central accounting office has been set up in the department of finance under the governor, but the independent auditor continues to keep general accounts and to pass on claims as before. The latter's decisions are final in the payment of claims, except in California and Minnesota, where the director of finance and the comptroller in the department of administration and finance, respectively, may overrule such decisions.

With respect to the states in which reorganization has been brought about largely through constitutional amendments, namely,

New York, Massachusetts, and Virginia, the functions of the auditor have been materially changed in two instances. Only in New York has this officer, who has the title of comptroller, remained the chief accounting and controlling officer of the state government. His status was practically unchanged by the reorganization which took place in 1927. He remains elective by the people, as before; his office, however, is designated as the department of audit and control. But in Massachusetts the auditor is limited strictly to auditing by the postaudit method; he keeps no accounts, but he audits the general and subsidiary accounts kept under the supervision of the comptroller's bureau in the commission on administration and finance which is responsible to the governor. He is required to report to the legislature, but he is not directly responsible to that body, being elected by the people. In Virginia, however, the structural arrangement, so far as the independent audit is concerned, approaches more nearly the English scheme. The auditor is appointed by the legislature; he is its agent in reviewing and reporting on the accounts and fiscal affairs of the administration. The general accounts are kept in the comptroller's office under the supervision of the governor. The comptroller settles and adjusts all claims in the process of which he performs a preaudit. The postaudit of the accounts is then made by the auditor.

The Virginia scheme, providing for an independent audit by an agent of the legislature, has been recommended for adoption in other states, notably in Ohio. The "Model State Constitution," prepared by a special committee on state government of the National Municipal League, provided (sec. 28) that the single chambered legislature appoint an auditor to serve during its pleasure. His duties were briefly defined as the auditing of the accounts kept by the administration under the control of the governor, the reporting on this audit to the legislature and the legislative council, and the conducting of investigations for the legislature into the financial affairs of the state government.

A weak point in the organization of practically every state legislature, as in the case of Congress, is the lack of a joint committee on public accounts. In the absence of such a committee, the legislative body is likely not to give the report of the auditor the attention which it deserves.

**The Audit Systems of Local Governments.**—The audit systems of local governments, particularly of cities, have developed in much the same manner as in state governments. They have come through a long, and at times uncertain, process. Even today, there



is no standard type of auditing agency for local governments. For example, some cities have an auditor elected by the people; others, an auditor appointed by the city council; and still others, no local officer at all, the auditing being done by private or by state agencies.<sup>1</sup>

The elective auditor, sometimes called controller, in local governments often performs the duties of chief accounting and controlling officer. In this respect, he usually exercises practically the same functions as the elective state auditor. Such is the arrangement in several of the large city governments and in the county governments of some states.

Where the auditor is appointed by the local legislative body, he may exercise functions which extend beyond those of merely auditing. He is sometimes, as in the states, the controlling officer who keeps the general accounts of the government.

Only in some of the cities operating under the more recent forms of government—the centralized mayor and the manager types—has the proper alignment been made between the accounting and controlling work and the auditing work. In these cities, of which Boston, Cleveland, Rochester, and Toledo are examples, the accounting and controlling functions are exercised by an officer directly responsible to the mayor or to the manager. The independent auditing functions are directed by the city council. The council may provide a local officer for this work, or it may hire certified public accountants from private concerns. The latter method is rather popular among the manager-governed cities. At the same time, it has certain advantages over the permanent auditing officer. It is likely to produce a more independent review of the city's accounts and finances and it is usually less expensive in the long run. Furthermore, the reports made by this method are likely to receive more attention on the part of the city council. This method, therefore, is to be recommended for city and other local governments, and even for the smaller state governments, in obtaining an independent audit under the supervision of the legislative body. The independent audit may be a continuous audit, or it may be a periodic audit; the latter would seem to meet the requirements of legislative review in most of the local governments.

Some state governments provide for an audit of the accounts and

<sup>1</sup> The county governments of some states are without any kind of independent audit, conducted either through local or state agencies. In some instances, the only fiscal officer is the county treasurer or trustee, who collects most of the local revenues, keeps the general accounts (such as they are), and audits his own transactions, when, as and if, he thinks advisable. So loosely run is county finance in some of our states!

finances of all local governments within their jurisdiction. This audit is usually conducted by the state auditor's office or by a special bureau or division in one of the administrative departments. Where such audit is made at least annually and is thoroughly performed, it may take the place of the independent audit conducted under the direction of the local legislative body. However, the results of the audit should be fully reported to the local legislative body by the state auditing agency. This body should carefully examine the report and take definite action on the recommendations contained in it.

\* \* \* \* \*

And so we have come to the end of our story. Public budgeting in the United States, let us reiterate, is still in the early stages of its development. Although substantial progress has already been made in this field, especially during the past decade, much remains to be done. From our standpoint, therefore, the future of budgeting is of greater concern than the past. It is for this reason that we have tried to point out in the preceding chapters what we believe to be the urgent tasks that lie immediately ahead of us. Are not these tasks worthy of the best efforts of statesmen and technicians?

## APPENDICES





## APPENDIX I

### CLASSIFICATION OF STATE BUDGET SYSTEMS ACCORDING TO THE TYPES OF BUDGET MAKING AUTHORITIES

THE following classification of state budget making authorities is based entirely upon the legal provisions in force up to January 1, 1929, and not upon the actual practice that prevails in the different states. For definitions of the various types, see Chapter III, pages 28-29. Where a date appears in parenthesis after the name of a state, it indicates the year in which the budget law of that state was subsequently amended. The states with italicized names later changed to another type of budget making authority, the date of change being indicated after the name in each case.

Among the states listed below, seven have budget systems which are established by constitutional amendments. These states and the time of adoption of the amendments are as follows: Maryland (1916), West Virginia (1918), Massachusetts (1918), Nebraska (1920), Louisiana (1921), California (1922), and New York (1927). The budget systems of the other forty-one states rest almost entirely upon statutory provisions.

Even from the legal standpoint, the development of budgetary methods in some of the states has been a matter of several years. As early as 1912, Massachusetts passed a law containing some provisions which were preliminary to budgetary procedure. Illinois, New York, and North Dakota also did the same thing in 1913. We have not indicated these early provisions in the subsequent table. Nor have we noted the fact that at least two of the territorial governments of the United States have effective budget systems. The Philippine Islands has an executive type of budget system which was authorized by an act of Congress, dated August 29, 1916. The Territory of Hawaii also operates a budget system of the executive type which was established in 1925.

Year	Executive Type	Board Type		Legislative Type	Number by Years
		Administrative <sup>1</sup>	Administrative and Legislative		
1911		California (1922)	Wisconsin (1917)		2
1913	Oregon (1921)			Arkansas	3
	Ohio (1921)				
1915	Iowa (1924)	Connecticut (1919, 1927)	North Dakota		7
	Minnesota (1925)	Washington (1925)	Vermont (1923)		
	Nebraska (1919)				
1916	Maryland	Louisiana (1921)		New York (1921)	4
	New Jersey				
1917	Delaware (1921) <sup>1</sup>	Tennessee (1923)	South Dakota (1925)		8
	Illinois	Missouri <sup>2</sup>			
	Kansas (1925)				
	New Mexico (1919)				
	Utah (1921, 1927)				
1918	Massachusetts (1922)	Kentucky (1926)	Georgia (1922)		6
	Mississippi	West Virginia			
	Virginia (1922)				
1919	Arizona (1922)	Alabama (1923, 1927)	Maine		14
	Colorado	Montana	North Carolina (1925)		
	Idaho (1925)	Michigan			
	Nevada (1921)	Texas			
	New Hampshire				
	Oklahoma				
	South Carolina				
	Wyoming (1925)				
1921	Indiana (1927)	Florida	New York (1926)		4
		Oregon (1927)			
1922	California (1927)				1
1923	Pennsylvania (1927)				3
	Tennessee				
	Vermont				
1925	North Carolina				3
	South Dakota				
	Washington				
1926	New York (1927)				2
	Rhode Island <sup>3</sup>				
1927	Oregon				1
Totals (less duplicates)		33	10	4	48

<sup>1</sup> The 1917 law provided for budgetary procedure temporarily or "on trial," but the procedure was made permanent in 1921.

<sup>2</sup> The Missouri legislature passed an executive budget law in 1921 which failed on a referendum in 1922. In 1925 the governor made another proposal for an executive budget to the legislature, but it failed to pass. A reorganization bill, providing for executive budget procedure, was proposed in 1927 and defeated by the legislature. Under the law enacted in 1917, the state tax commission submits merely a compilation of estimates to the legislature.

<sup>3</sup> A law was enacted in 1923 looking toward an executive budget.

## APPENDIX II

### EXPENDITURE CLASSIFICATION OF THE NATIONAL GOVERNMENT OF THE UNITED STATES

THE following is a copy of the order issued by the Comptroller General promulgating a classification by objects of expenditure for all departments and establishments of the national government of the United States. The order, however, contains only an outline of the classification. Attached thereto are more than forty pages of explanatory and detailed matter, which we do not reproduce here.

General Accounting Office  
Office of the Comptroller General  
Washington

Bulletin No. 1

May 11, 1922

*To the heads of all departments and establishments:*

1. In accordance with the provisions of section 309 of the Budget and Accounting Act, 1921, approved June 10, 1921 (42 Stat., p. 22), the following Classification of Objects of Expenditure is prescribed for use in the several departments and establishments of the Government of the United States for the purpose of obtaining uniformity in administrative appropriation and fund accounting and in the analysis of governmental expenditures, for the information of the President, the Congress, and such agencies of the Government as are required to deal with governmental expenditures.

2. Beginning with July 1, 1922, the appropriation and fund accounts of all departments and establishments of the Government shall be so kept as to permit the segregation of expenditures under the heads shown in the prescribed classification.

3. The Classification of Objects of Expenditure referred to in paragraphs 1 and 2 above is as follows:

#### CURRENT EXPENSES

- 01 Personal services
- 02 Supplies and materials:
  - 0200 Stationery and office supplies
  - 0210 Medical and hospital supplies
  - 0220 Scientific and educational supplies
  - 0230 Fuel
  - 0240 Wearing apparel and sewing supplies
  - 0250 Forage and other supplies for animals
  - 0260 Provisions

- 0270 Powder, projectiles, explosives, pyrotechnic supplies, and components thereof
- 0280 Sundry supplies
- 0290 Materials
- 03 Subsistence and support of persons (service)
- 04 Subsistence and care of animals, and storage and care of vehicles (service)
- 05 Communication service:
- 0500 Telegraph service
- 0510 Telephone service
- 0520 Other communication service
- 06 Travel expenses
- 07 Transportation of things (service)
- 08 Printing, engraving, lithographing, binding, photographing, and type-writing (service):
- 0800 Printing and binding
- 0810 Lithographing, engraving, and engrossing
- 0820 Stenographic work, typewriting, multigraphing and mimeographing (job work)
- 0830 Photographing and making photographs and prints
- 09 Advertising and publication of notices (service)
- 10 Furnishing of heat, light, power, water, and electricity (service)
- 11 Rents:
- 1100 Rent of buildings and structures
- 1110 Other rents
- 12 Repairs and alterations
- 13 Special and miscellaneous current expenses

## FIXED CHARGES

- 20 Interest
- 21 Pensions, retirement salaries, annuities, World War allowances, and insurance losses:
- 2100 Pensions
- 2110 Retirement pay (or salaries)
- 2120 Annuities
- 2130 Allowances
- 2140 Bonus (World War)
- 2150 Insurance losses
- 22 Grants, subsidies, and contributions:
- 2200 Grants to States and other political subdivisions
- 2210 Contributions
- 2220 Providence funds
- 2230 Gratuities
- 2240 Tuition
- 2250 Burial expenses
- 2260 Trade subsidies, and bounties

## ACQUISITION OF PROPERTY

- 30 Equipment (includes live stock):
- 3000 Passenger carrying vehicles



- 3010 Furniture, furnishings, and fixtures
- 3020 Educational, scientific, and recreational equipment
- 3030 War equipment
- 3040 Live stock (other than that purchased for slaughter and zoological garden stock)
- 3050 Other equipment
- 31 Land and interests in land
- 32 Structures and parts, and nonstructural improvements to land (includes fixed equipment):
- 3200 Structures for military defense
- 3210 Other structures
- 3220 Nonstructural improvements
- 33 Stores purchased for resale (net)

## PAYMENT OF DEBT

- 40 Public debt redemptions and purchases:
- 4000 Public debt retirements chargeable to ordinary receipts:
- 4001 Sinking fund
- 4002 Purchase of bonds from foreign repayments
- 4003 Redemption of bonds and notes from estate taxes
- 4004 Retirements from Federal reserve bank franchise tax receipts
- 4005 Retirements from gifts, forfeitures, and other miscellaneous receipts
- 4006 Retirements from surplus revenue receipts
- 4010 Public debt retirements from public debt receipts:
- 4011 Interesting-bearing debt
- 4012 Old debt retirements
- 4013 National-bank notes and Federal reserve bank notes retired

## CAPITAL OUTLAYS FOR RIGHTS AND OBLIGATIONS

- 50 Investments (includes working capital funds):
- 5000 Investments in securities
- 5010 Loans to foreign governments
- 5020 Loans to railroads
- 5030 Working capital funds:
- 5031 Capital stock of war emergency corporations
- 5032 Payments to working capital funds
- 5040 Investment of trust funds:
- 5041 Government life insurance fund
- 5042 Civil service retirement fund
- 5043 District of Columbia policemen's and firemen's retirement fund
- 5044 District of Columbia teachers' retirement fund
- 5050 Seed-grain loans
- 51 Treaty obligations:
- 5100 Payments of amounts fixed in treaties with foreign nations
- 5110 Payments of amounts fixed in treaties with Indians
- 52 Repayments of deposits:
- 5200 Repayments of moneys deposited by governmental corporations
- 5210 Outstanding liabilities
- 5220 Repayments of deposits of personal funds made by soldiers, sailors, and marines

<b>5230</b>	Repayments to Indians of proceeds of sales of Indian lands
<b>5240</b>	Repayments of deposits of personal funds of patients
<b>5250</b>	Repayments of deposits of pension moneys of patients
<b>5260</b>	Repayments of moneys of deceased inmates of National Home for Disabled Volunteer Soldiers
<b>5270</b>	Repayment of moneys of citizens of the United States dying abroad, deposited by United States consuls or by foreign nations
<b>5280</b>	Special and miscellaneous repayments of deposits
<b>53</b>	Refunds, awards, and indemnities:
<b>5300</b>	Refund of fines, penalties, and forfeitures
<b>5310</b>	Refund of taxes and duties, not specified
<b>5320</b>	Refunds on account of adjustments, not specified
<b>5330</b>	Miscellaneous refunds, other than taxes or duties, not specified
<b>5340</b>	Awards, not specified
<b>5350</b>	Indemnities, not specified

The items in this classification preceded by symbol numbers in ***bold face*** are the accounts prescribed. The headings preceded by symbol numbers in *italic* type serve only as group headings for the accounts prescribed under them and will not be set up separately.

4. There is attached hereto, as an appendix, a detailed Classification of Objects of Expenditure, together with definitions and explanations thereof. The classification herein prescribed is based upon the details shown in the appendix. These definitions and explanations, with the detailed classification, are included for the purpose of making clear the expenditures to be included under each account prescribed. If any department or establishment is required by law or feels otherwise obliged to classify its expenditures in greater detail than is herein prescribed, the detailed classification in the appendix will be used wherever possible.

J. R. McCarl,  
Comptroller General.

### APPENDIX III

#### EXPENDITURE CLASSIFICATION USED BY THE CITY OF ROCHESTER, NEW YORK, FROM 1916 TO 1923

THIS is perhaps the most elaborate classification of expenditures by objects ever devised for a city government. See above Chapter VII, pages 197-200, for a discussion of this classification and the reasons for its modification in 1923. In order to give the reader an idea of the details of this classification, we present below a summary outline which sets forth its main classes and subclasses. This summary is taken from a pamphlet entitled "Classification of Objects of Expenditure, City of Rochester, N. Y.," issued by Comptroller E. S. Osborne, May, 1916.

##### A PERSONAL SERVICES

- 1000 *Salaries, full time service*
- 2000 *Salaries, part time service*
- 3000 *Wages, full time service*
- 4000 *Wages, part time service*
- 5000 *Fees and other compensations*
- 6000 *Awards and bonuses*
- 7000 *Trophies, prizes, badges and certificates for personal services*

##### B SERVICES OTHER THAN PERSONAL

- 1000 *Transportation of persons*
- 2000 *Transportation of things*
- 3000 *Subsistence and support of persons*
- 4000 *Subsistence and care of animals, storage and care of vehicles*
- 5000 *Communication service*
- 6000 *Printing, binding and advertising*
- 7000 *Furnishing of heat, light and power*
- 8000 *Repairs to equipment and structures*
- 9000 *Special and miscellaneous services other than personal*

##### C MATERIALS AND SUPPLIES

- 1000 *Non-metallic minerals and mineral products*
  - 1100 *Coal, bitumen, graphite and products thereof*
  - 1200 *Clay, chalk, talc and magnesia*
  - 1300 *Lime, cement, gypsum, salts, mica, sulphur, and asbestos*
  - 1400 *Gravel, sand, earth, cinders and slag*

- 1500 Construction, building and ornamental stone other than precious stones
- 1600 Precious stones
- 1700 Crystal, glass and glass products
- 1900 Special and miscellaneous non-metallic minerals and mineral products
- 2000 *Metal ores, metals and metal products*
  - 2100 Ores and metals in pigs and ingots
  - 2200 Metal castings and metals in rolled and forged shapes
  - 2300 Chain, wire, cable and woven goods
  - 2400 Pipe, tubing and pipe fittings
  - 2500 Nails, bolts, nuts, screws, etc.
  - 2600 Building, cabinet and ship-builders' hardware
  - 2700 Vehicular hardware and parts (not otherwise classified)
  - 2800 Specifically adapted metal parts (not otherwise classified)
  - 2900 Special and miscellaneous metal ores, metals and metal products
- 3000 *Vegetable materials other than wood and fibre*
  - 3100 Grass, hay, straw, moss, seaweed
  - 3200 Grain—whole, cracked and ground
  - 3300 Nuts, seeds and pods other than for propagation
  - 3400 Fruits and fruit vegetables
  - 3500 Roots, tubers and bulbs other than for propagation
  - 3600 Leaves, stems and tops
  - 3700 Rubber and rubber products
  - 3800 Exudations, extracts and residue (except rubber)
  - 3900 Special and miscellaneous vegetable materials other than wood and fibre
- 4000 *Timber, lumber and wood products*
  - 4100 Round, hewn and split timber
  - 4200 Sawed lumber and timber (including shingles; laths, etc.)
  - 4300 Flooring, siding, ceiling and trim
  - 4400 Sash, doors, blinds, and other mill products
  - 4500 Boat and carriage builders' and implement and instrument makers' stock
  - 4600 Merchandise shipping receptacles
  - 4700 Small consumable articles
  - 4800 Cork, bark, fuel, packing, dyewood, etc.
  - 4900 Special and miscellaneous timber, lumber and wood products
- 5000 *Fibre and fibre products*
  - 5100 Raw fibrous materials
  - 5200 Yarn, thread and cordage
  - 5300 Knitted goods
  - 5400 Ribbon, tape and cloth in the web and bolt (including bed and table cloths)



- 5500 Undergarments and accessories
- 5600 Woven outer garments
- 5700 Felts
- 5800 Paper
- 5900 Special and miscellaneous fibre and fibre products
- 6000 *Animal products other than fibre*
  - 6100 Live animals, fish and fowl purchased or raised for slaughter
  - 6200 Meat, including fish and fowl
  - 6300 Milk, butter, cheese, eggs and honey
  - 6400 Ivory, bone, horn, hoof, shell, coral, sponge
  - 6500 Pelts, furs, hair, and feathers
  - 6600 Hides, skins and leather
  - 6700 Fats, oils, extracts and secretions
  - 6800 Gelatin, gut and isinglass
  - 6900 Special and miscellaneous animal products other than fibre
- 7000 *Chemicals, drugs and medicines*
  - 7100 Chemicals
  - 7200 Drugs as described in pharmacopœia and materia medica
  - 7300 Proprietary and patent medicines
- 8000 *Composition materials, pigments and composite articles*
  - 8100 Compound lubricants, polishing and abrading supplies
  - 8200 Paint, varnish and other painters' materials
  - 8300 Composite electrical and lighting supplies
  - 8400 Perfumes, disinfectants and composite cleaning supplies
  - 8500 Composite stationery supplies
  - 8600 Explosives and pyrotechnic supplies
  - 8800 Prepared food
  - 8900 Special and miscellaneous composite materials and supplies
- 9000 *Special and miscellaneous materials and supplies*
  - 9100 Water, ice and steam
  - 9200 Electrical energy

## D EQUIPMENT

- 1000 *Heat, light and power equipment*
  - 1100 Steam boiler plants including portable plants
  - 1200 Steam and gas engines
  - 1300 Hot air producing equipment
  - 1400 Refrigerating equipment
  - 1500 Pumping and air compressing equipment
  - 1600 Electrical equipment
  - 1700 Lighting equipment
  - 1800 Heat, cold and mechanical power transmission equipment

- 1900 Special and miscellaneous heat, light and power equipment
- 2000 *Production and construction equipment*
  - 2100 Equipment for<sup>s</sup> farming and the extraction of raw materials and substances
  - 2200 Metal working equipment
  - 2300 Non-metallic mineral working equipment
  - 2400 Timber working equipment
  - 2500 Food preparing equipment (other than household utensils)
  - 2600 Printing and fibre, cloth, and leather working equipment
  - 2700 Distilling and refining equipment
  - 2800 Construction, repairing and wrecking equipment
  - 2900 Special and miscellaneous production and construction equipment
- 3000 *Transporting and conveying equipment*
  - 3100 Equipment for transportation by water
  - 3200 Railroad equipment
  - 3300 Land and ice vehicles
  - 3400 Equipment for hoisting, shifting and loading
  - 3500 Containers for use in transportation
  - 3600 Harness, saddlery and other stable equipment
  - 3700 Garage equipment
  - 3800 Equipment for aerial transportation
  - 3900 Special and miscellaneous transporting and conveying equipment
- 4000 *Furniture and furnishings*
  - 4100 Supports for the body
  - 4200 Supports and depositories for commodities other than chinaware
  - 4300 Floor coverings
  - 4400 Draperies, curtains, screens and awnings
  - 4500 Food preparing and serving equipment
  - 4600 Lavatories, toilets and accessories
  - 4700 Bedding
  - 4800 Non-structural enclosures and containers
  - 4900 Special and miscellaneous furniture and furnishings
- 5000 *Equipment for the protection and care of life and property*
  - 5100 Toilet equipment
  - 5200 Medical, surgical and veterinary equipment (including laboratory equipment, not classified)
  - 5300 Fumigating and disinfecting equipment
  - 5400 Fire fighting equipment
  - 5500 Marine life saving equipment
  - 5600 Equipment for the care of property
  - 5700 Equipment for attack and defense
  - 5800 Punitive and correctional equipment

- 5900 Special and miscellaneous equipment for the protection and care of life and property
- 6000 *Equipment for obtaining, recording and communicating information and ideas*
  - 6100 Measuring and observing equipment
  - 6200 Calculating equipment
  - 6300 Telegraphic, telephonic and other signalling equipment
  - 6400 Musical and sound producing equipment
  - 6500 Equipment for preparing and handling documents and records
  - 6600 Picture taking and exhibiting equipment
  - 6700 Prints, writings, drawings and paintings
  - 6800 Models, specimens and illustrative apparatus
  - 6900 Special and miscellaneous equipment for obtaining, recording and communicating information and ideas
- 7000 *Hand tools*
  - 7100 Scraping and gouging tools
  - 7200 Sawing tools
  - 7300 Punching, boring and threading tools
  - 7400 Shearing and cutting tools
  - 7500 Chopping and hitting tools
  - 7600 Excavating and lifting tools
  - 7700 Abrasive tools
  - 7800 Holding and pulling tools
  - 7900 Special and miscellaneous hand tools
- 8000 *Live animals other than for slaughter or zoölogical stock*
  - 8100 Beasts of burden
  - 8200 Produce yielding animals
  - 8300 Animals kept for protection
- 9000 *Special and miscellaneous equipment*
  - 9100 Recreational equipment
  - 9200 Zoölogical garden stock
  - 9300 Botanical garden stock

## E LAND, STRUCTURES AND NON-STRUCTURAL IMPROVEMENTS

- 1000 *Land and interests in land*
- 2000 *Buildings*
- 3000 *Highways*
- 4000 *Bridges and viaducts*
- 5000 *Piers and wharves*
- 6000 *Ornamental structures, fences, trellises, etc.*
- 7000 *Substructures and superstructures not otherwise classified*
- 8000 *Non-structural improvements*
- 9000 *Special and miscellaneous land, structures and non-structural improvements*

## F RIGHTS, OBLIGATIONS AND PAYMENT OF DEBT

- 1000 *Purchase of rights to demand, control or enforce action, or of rights to act*

- 2000 *Payment of debt direct or to sinking funds*
- 3000 *Repayment of deposits*
- 4000 *Obligations arising from agreements*
- 5000 *Refunds, awards and indemnities*
- 9000 *Special and miscellaneous rights, obligations and payment of debt*

#### G RENTS, PRIVILEGES, INTEREST, TAXES, INSURANCE AND DEPRECIATION

- 1000 *Rents*
- 2000 *Fees for privileges*
- 3000 *Interest*
- 4000 *Premiums*
- 5000 *Taxes*
- 6000 *Insurance*
- 7000 *Depreciation*

#### H PENSIONS

- 1000 *Pensions on account of disability or death due to service*
- 2000 *Pensions on account of service*
- 3000 *Mothers' pensions*

#### J CONTRIBUTIONS

- 1000 *Contributions to charitable and humanitarian societies*
- 2000 *Contributions to educational and scientific institutions*
- 3000 *Contributions for celebrations, expositions and entertainments*
- 4000 *Contributions to military organizations*
- 5000 *Membership of municipal officers or employees in societies*
- 6000 *Burial expenses*
- 7000 *Providence funds*
- 8000 *Contributions to association for protection of life and property*
- 9000 *Special and miscellaneous contributions*

#### K LOSSES AND CONTINGENCIES

- 1000 *Losses by misappropriation*
- 2000 *Losses by accident or neglect*
- 3000 *Losses by theft*
- 4000 *Contingencies*

#### L PAYMENTS ARISING FROM RELATION AS AGENT

- 1000 *Payments as agent for the commonwealth*
- 2000 *Payments as agent for humanitarian societies*



## APPENDIX IV

### EXPENDITURE CLASSIFICATION OF THE CITY OF CINCINNATI, OHIO

THIS classification was adopted by the Cincinnati city government in 1928 for use in connection with its accounting and budgeting work. It follows the model expenditure classification by objects recommended in this book (Chapter VII, pages 201-203), except in some of the details. These variations are interesting since they show how the model classification may be adapted to local conditions and requirements. The Cincinnati classification is as follows:

#### 1000 *Personal Services*

- 1100 Salaries, regular
- 1200 Salaries, temporary
- 1300 Wages, regular
- 1400 Wages, temporary
- 1500 Jurors' fees
- 1600 Witness fees
- 1700 Expert and consultant services
  - 1710 Appraisal services
  - 1720 Auditing and accounting services
  - 1730 Consultant services
  - 1740 Court reporting
  - 1750 Engineering services
  - 1760 Expert services (not otherwise classified)
  - 1770 Medical and surgical services
- 1900 Compensations (not otherwise classified)

#### 2000 *Contractual Services*

- 2100 Communication and transportation services
  - 2110 Postage
  - 2120 Telephone services
  - 2130 Telegraph, cable, wireless and messenger service
  - 2140 Freight and express services
  - 2150 Traveling expenses
    - 2151 Traveling expenses—local
    - 2152 Traveling expenses — nonlocal — including board and lodging
    - 2153 Mileage allowance to city employees
  - 2190 Communication and transportation services (not otherwise classified)
- 2200 Subsistence, care and support
  - 2210 Subsistence and support of persons
    - 2211 Relief (money)

- 2212 Food (relief)
- 2213 Coal (relief)
- 2214 Rent (relief)
- 2215 Transportation city cases
- 2220 Subsistence and care of animals
- 2230 Storage and care of vehicles
- 2240 Storage and care of materials and equipment
- 2290 Subsistence, care and support services (not otherwise classified)
- 2300 Printing, binding and advertising services
  - 2310 Publication of pamphlets and books
    - 2311 City Bulletin publication
    - 2312 Annual report publication
    - 2319 Pamphlets and books—publication (not otherwise classified)
  - 2320 Printing and other reproduction services
  - 2330 Photographing and blue printing services
  - 2340 Advertising and publication of notices
  - 2350 Binding, and advertising services
- 2400 Heat, light, power and water services
  - 2410 Heating service
  - 2420 Electric service
  - 2430 Street lighting
    - 2431 Gas
    - 2432 Electric
  - 2440 Traffic lighting
  - 2450 Power service
  - 2460 Water service
  - 2470 Gas service
  - 2490 Heat, light, power and water services (not otherwise classified)
- 2500 Repairs to equipment
  - 2510 Office furniture and fixture repairs
  - 2520 Household furniture and fixture repairs
  - 2530 Instruments and apparatus repairs
  - 2540 Machinery and tool repairs
  - 2550 Horse-drawn vehicles and harness repairs
  - 2560 Automotive equipment repairs
  - 2570 Building equipment repairs
    - 2571 Lighting and power equipment repairs
    - 2572 Sanitary and heating equipment repairs
    - 2573 Refrigerating equipment repairs
    - 2579 Building equipment repairs (not otherwise classified)
  - 2590 Repairs to equipment (not otherwise classified)
- 2600 Repairs to buildings and other structures
  - 2610 Building repairs
  - 2620 Sidewalk repairs
  - 2630 Sewer and drain repairs

- 2640 Road repairs
  - 2641 Oiling of roads
  - 2649 Road repairs (not otherwise classified)
- 2650 Bridges and viaduct repairs
- 2660 Piers and wharves—repairs
- 2670 Reservoir repairs
- 2680 Ornamental, commemorative structures—repairs
- 2690 Building and structural repairs (not otherwise classified)
- 2700 Cleaning and waste removal services
  - 2710 Cleaning—interior buildings and furnishings
  - 2720 Cleaning—exterior buildings and grounds
  - 2730 Laundry services
  - 2740 Disinfecting and exterminating services
  - 2750 Waste removal services
  - 2760 Sprinkling streets
  - 2790 Janitorial, cleaning, etc., services (not otherwise classified)
- 2900 Sundry contractual services
  - 2910 Clock, signal and burglar alarm service
  - 2920 Information and credit service
  - 2930 Public office and court service
  - 2940 Entertainment service
  - 2950 Legal service
  - 2990 Sundry contractual services (not otherwise classified)
- 3000 *Commodities*
  - 3100 Supplies
    - 3110 Office, drafting and photographic
    - 3120 Food products
    - 3130 Forage, stable and animal supplies
    - 3140 Fuel and light
      - 3141 Coal and coke
      - 3142 Gasoline
      - 3143 Fuel and light—miscellaneous
    - 3150 Mechanical and skilled trades supplies and tools
      - 3151 Lubricants
      - 3152 Mechanical and plant supplies
      - 3153 Tools and testing instruments
    - 3160 Cleaning supplies
    - 3170 Wearing apparel and personal equipment
    - 3180 Household supplies
  - 3200 Supplies (continued)
    - 3210 Medical, surgical and laboratory supplies
    - 3220 Chemical products for plant operation and construction purposes
    - 3230 Recreational supplies
    - 3240 Florist and agricultural supplies

- 3290 Supplies (not otherwise classified)
- 3300 Parts and fittings
  - 3310 Hardware fittings
  - 3320 Electrical fittings and parts
  - 3330 Household parts and fittings
  - 3340 Office furniture and machinery parts
  - 3350 Engineering and scientific instrument parts
  - 3360 Meter parts
  - 3370 Signal system parts
  - 3380 Heat, light, power and mechanical unit parts
- 3400 Parts and fittings (continued)
  - 3410 Motor vehicle parts
  - 3420 Fire fighting equipment (special) parts
  - 3430 Waste removal equipment (special) parts
  - 3440 Construction equipment (special) parts
  - 3450 Recreational equipment parts
  - 3460 Agricultural and park equipment parts
  - 3490 Parts and fittings (not otherwise classified)
- 3500 Materials
  - 3510 Lumber and wood products
  - 3520 Masonry and road materials
  - 3530 Structural metals
  - 3540 Paints, oils and glass
  - 3550 Fibre and textile products
  - 3560 Leather
  - 3590 Materials (not otherwise classified)
- 4000 *Current charges*
  - 4100 Rents
    - 4110 Rent of buildings and offices
    - 4140 Rent of lands
    - 4150 Rent of machinery and equipment
    - 4170 Rent of office furniture and equipment
    - 4190 Rents (not otherwise classified)
  - 4200 Insurance
    - 4210 Insurance on buildings and structures
    - 4220 Insurance on stores
    - 4230 Insurance on equipment
    - 4240 Official bonds
    - 4250 Workmen's Compensation
    - 4290 Insurance (not otherwise classified)
  - 4300 Refunds, awards and indemnities
  - 4400 Subscriptions and memberships
  - 4900 Current charges (not otherwise classified)
- 5000 *Current Obligations*
  - 5100 Pension and retirement contributions
  - 5200 Grants and subsidies
  - 5300 Taxes



6000 *Properties*

## 6100 Equipment

- 6110 Household furniture and equipment
- 6120 Office furniture and machinery
- 6130 Engineering and scientific instruments
- 6140 Meters
- 6150 Signal systems
- 6160 Heat, light, power and mechanical equipment
- 6170 Recreational equipment
- 6180 Agricultural, park and recreational equipment

## 6200 Equipment (continued)

- 6210 Motor vehicles
- 6220 Fire fighting equipment
- 6230 Waste removal equipment
- 6240 Construction and engineering equipment
- 6250 Live stock
- 6260 Firearms
- 6290 Equipment (not otherwise classified)

## 6300 Buildings and improvements

- 6310 Buildings
- 6320 Sidewalks
- 6330 Sewers, drains and culverts
- 6340 Roads
- 6350 Bridges and viaducts
- 6360 Piers and wharves
- 6370 Reservoirs
- 6380 Ornamental, commemorative structures
- 6390 Buildings and structures (not otherwise classified)

## 6400 Lands

7000 *Debt Service*

## 7100 Interest

- 7110 Interest on notes
- 7120 Interest on serial bonds
- 7130 Interest on sinking fund bonds

## 7200 Principal

- 7210 Principal on notes
- 7220 Principal on serial bonds
- 7230 Principal on sinking fund bonds

## APPENDIX V

### INCOME CLASSIFICATION OF THE CITY OF CINCINNATI, OHIO

THIS classification was promulgated on January 1, 1929, for use in the budgeting and accounting work of the Cincinnati city government. It follows rather closely the model income classification by sources suggested in Chapter VII, pages 221-222. All detailed sources of the city's income are listed under the main classes and subclasses. Opposite each item are shown the legal reference and the fund to which the receipts are credited, but we have not deemed these of sufficient interest to reproduce below. The code, which places all items of income regardless of whether they are revenues, borrowings, or receipts from the sales of properties in the 9000 group, might be greatly improved.

#### REVENUES

##### *Taxes*

9000	Real and personal property taxes
9010	Occupational taxes
9011	Current
9012	Delinquent
9013	Penalties
9020	Taxes (not otherwise classified)

##### *Rights and Privileges*

9030	Licenses
9031	Advertisers, bill posters, etc.
9032	Auctioneers
9033	Ballrooms, public (keepers)
9034	Baseball ground (keepers)
9035	Billiard or pool parlor proprietors
9036	Bowling alley proprietors
9037	Carousel owners
9038	Circus (operators)
9039	Dancing school proprietors
9040	Drivers—taxicab, omnibus, auto for hire, etc.
9041	Employment agencies
9042	Ferry operators
9043	Firearms—retail dealers
9044	Food dealers
9045	Gunpowder vendors
9046	Hotel solicitors

- 9047 Itinerant vendors (food, etc.)
- 9048 Itinerant vendors (general)
- 9049 Itinerant vendors (medicine)
- 9050 Licenses (not otherwise classified)
- 9051 Livery, boarding stable (keepers)
- 9052 Milk haulers
- 9053 Milk shippers
- 9054 Moving picture operators
- 9055 Musicians, street
- 9056 Owners—taxicab, omnibus, etc.
- 9057 Peddlers, hand
- 9058 Peddlers, hand-drawn vehicle
- 9059 Peddlers, other vehicles
- 9060 Photographers
- 9061 Riding school (keepers)
- 9062 Scavengers
- 9063 Second-hand dealers (general)
- 9064 Second-hand dealers (automobiles, etc.)
- 9065 Sidewalk construction (individuals or corporations)
- 9066 Shooting gallery (keepers)
- 9067 Theater, show house (proprietors)
- 9068 Ticket scalpers
- 9069 Vehicles—dairymen nonresident
- 9070 Vehicles—drawn by animals
- 9071 Weigher—coal and coke (city deputy)
- 9100 Permits
- 9101 Billboard and sign
- 9102 Blocking sidewalks
- 9103 Building
- 9104 Driveway—temporary use of sidewalk
- 9105 Fire plug, use of
- 9106 Fire—street or public place (individual)
- 9107 Machinery—operation on streets
- 9108 Moving buildings on public street
- 9109 Moving buildings, shoring, etc.
- 9110 Permits (not otherwise classified)
- 9111 Plumbing installation
- 9112 Power and heating installations
- 9113 Repair of buildings
- 9114 Sewer—tap
- 9115 Sidewalk—temporary use for driving over
- 9116 Sidewalk or driveway construction
- 9117 Sidewalk and enclosures, temporary
- 9118 Streets—occupancy by building materials
- 9119 Transport article on street
- 9120 Water, temporary use of
- 9121 Wrecking buildings
- 9150 Franchises
- 9151 Cincinnati, Newport and Covington Railway Company
- 9152 Cincinnati Street Railway Company (paving)

9153	Cincinnati Street Railway Company (office)
9154	Cincinnati Street Railway Company (Eighth Street Viaduct)
9155	Cincinnati Street Railway Company (Gilbert Avenue Viaduct)
9156	Cincinnati Street Railway Company (Harrison Avenue Viaduct)
9157	Franchises (not otherwise classified)
9158	Omnibus (route)
9159	Union Gas and Electric Company
9170	Concessions
9171	Comfort stations
9172	Concessions (not otherwise classified)
9173	Park board
9174	Parking space
9175	Recreation board
9180	Rents
9181	Buildings, public (acquired by current revenues)
9182	Buildings, public (acquired by bond issue)
9183	Cincinnati Southern Railroad
9184	City building—to water department
9185	Health center garages
9186	Hospital grounds (market purposes)
9187	Land—for dwarf signal
9188	Market stalls
9189	Rents (not otherwise classified)
9190	Tuberculosis sanitarium
9191	Water front land.

### *Services and Sales*

9200	Fees
9201	Birth and death certificates
9202	Concrete block inspection
9203	Electric meter testing
9204	Elevator inspection
9205	Fees (not otherwise classified)
9206	Gas meter testing
9207	Gasoline pumps—testing
9208	Hay—inspection and weighing
9209	Motion picture operator examination
9210	Occupancy certificate
9211	Plumbing inspection
9212	Sign inspection
9213	Taxi meter testing
9214	Water meter testing
9215	Wharfage
9220	Sale of services and commodities
9221	Admission charge
9222	Advertising—water bills
9223	Ashes—hauling



9224	Automobile repairs—charges to private persons
9225	Badges—children's street trades
9226	Badges drivers—public vehicles
9227	Badges—employment agency
9228	Bath services
9229	City Bulletin—advertising
9230	City Bulletin—subscription
9231	Comfort station services
9232	Commodities—public property
9233	Fire department service
9234	Hospital care
9235	Impounded animals—care of
9236	Inspection—construction C. N. & C. Railway
9237	Maps and blue prints, zoning, etc.
9238	Municipal codes
9239	Prisoners, county board of
9240	Sale of services (not otherwise classified)
9241	Signs "No Parking"
9242	Street opening—water works charges
9243	Street restoration
9244	Telephone pay station
9245	Vehicles—impounded
9246	Vehicles—seized transporting liquor
9247	Water meter repairs
9248	Water—metered service
9249	Water—service extensions
9250	Water—turning on service

*Interest and Premiums*

9300	Interest
9301	Accrued (sale of bond or note)
9302	Bank deposits—city treasurer
9303	Bank deposits—sinking fund trustees
9304	Interest (not otherwise classified)
9305	Investments—sinking fund trustees
9310	Premiums
9311	Sale of bonds or notes

*Fines and Forfeitures*

9350	Fines
9351	Municipal court fines, fees and costs—civil branch
9352	Criminal branch
9353	Fines (not otherwise classified)
9360	Forfeitures
9361	Biddings—public
9370	Penalties
9371	Certified assessments
9372	Penalties (not otherwise classified)
9373	Water bills

*Grants and Donations*

- 9400 Grants and subventions
- 9401 Cigarette tax
- 9402 Collateral inheritance tax
- 9403 Direct inheritance tax
- 9404 Gasoline tax
- 9405 Grants and subventions (not otherwise classified)
- 9406 Health department—proportion of salaries
- 9407 Liquor tax
- 9408 Motor Bus Company tax
- 9409 Motor vehicle registration
- 9410 Pawnbrokers' license—state
  
- 9420 Donations and Gifts
- 9421 Community chest
- 9422 Concerts
- 9423 Conscience money
- 9424 Dental clinic
- 9425 Donations and gifts (not otherwise classified)
- 9426 Food inspection and veterinarian
- 9429 Venereal clinic

*Pension Assessments*

- 9440 Pension assessments

*Special Assessments*

- 9445 Special assessments

## BORROWINGS

- 9500 Borrowings

## SALES OF PROPERTIES

- 9600 Sales of properties
- 9610 Permanent improvements—public property

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